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[6714-01-P]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 327

RIN 3064-AE37

Assessments

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice of proposed rulemaking and request for comment.

SUMMARY: On July 13, 2015, the FDIC published a notice of proposed rulemaking in the Federal Register proposing to amend 12 CFR part 327 to refine the deposit insurance assessment system for small insured depository institutions that have been federally insured for at least 5 years (established small banks). In response to comments received regarding the notice, the FDIC is issuing this revised notice of proposed rulemaking (revised NPR or revised proposal) that would: use a brokered deposit ratio (that treats reciprocal deposits the same as under current regulations) as a measure in the financial ratios method for calculating assessment rates for established small banks instead of the previously proposed core deposit ratio; remove the existing brokered deposit adjustment for established small banks; and revise the previously proposed one-year asset growth measure.

The FDIC proposes that a final rule would take effect the quarter after the Deposit Insurance Fund (DIF) reserve ratio has reached 1.15 percent (or the first quarter after a final rule is adopted that the rule can take effect, whichever is later).

DATES: Comments must be received by the FDIC no later than [insert date 30 days after publication in the Federal Register].

ADDRESSES: You may submit comments on the notice of proposed rulemaking using any of the following methods:

- *Agency Web Site:* <http://www.fdic.gov/regulations/laws/federal/>. Follow the instructions for submitting comments on the agency website.
- *E-mail:* comments@fdic.gov. Include RIN 3064-AE37 on the subject line of the message.
- *Mail:* Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429.
- *Hand Delivery:* Comments may be hand delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7 a.m. and 5 p.m.
- *Public Inspection:* All comments received, including any personal information provided, will be posted generally without change to <http://www.fdic.gov/regulations/laws/federal/>.

FOR FURTHER INFORMATION CONTACT: Munsell St. Clair, Chief, Banking and Regulatory Policy, Division of Insurance and Research, 202-898-8967; Ashley Mihalik, Senior Financial Economist, Division of Insurance and Research, 202-898-3793; Nefretete Smith,

Senior Attorney, Legal Division, 202-898-6851; Thomas Hearn, Counsel, Legal Division, 202-898-6967.

SUPPLEMENTARY INFORMATION:

I. Background

The 2015 Notice of Proposed Rulemaking

On June 16, 2015, the FDIC's Board of Directors (Board) authorized publication of a notice of proposed rulemaking (the 2015 NPR) to refine the deposit insurance assessment system for established small banks (that is, small banks other than new small banks and insured branches of foreign banks).¹ The 2015 NPR was published in the Federal Register on July 13, 2015.² In the 2015 NPR, the FDIC proposed to improve the assessment system by: (1) revising the financial ratios method so that it would be based on a statistical model estimating the probability of failure over three years; (2) updating the financial measures used in the financial ratios method consistent with the statistical model; and (3) eliminating risk categories for all established small banks and using the financial ratios method to determine assessment rates for all such banks. CAMELS composite ratings,³ however, would be used to place a maximum on the assessment rates that CAMELS composite 1- and 2-rated banks can be charged and minimums on the assessment rates that CAMELS composite 3-, 4- and 5-rated banks can be charged.

¹ Subject to exceptions, an established insured depository institution is one that has been federally insured for at least five years as of the last day of any quarter for which it is being assessed. 12 CFR 327.8(k).

² See 80 FR 40838 (July 13, 2015).

³ A financial institution is assigned a CAMELS composite rating based on an evaluation and rating of six essential components of an institution's financial condition and operations. These component factors address the adequacy of capital (C), the quality of assets (A), the capability of management (M), the quality and level of earnings (E), the adequacy of liquidity (L), and the sensitivity to market risk (S).

The FDIC received a total of 484 comment letters in response to the 2015 NPR. Of these, 45 were from trade groups and 439 were from individuals or banks. The majority of commenters expressed concern regarding the proposed treatment of reciprocal deposits in the 2015 NPR.

The FDIC is issuing this revised NPR in response to comments received regarding the 2015 NPR. The broad outline of this revised NPR remains the same as the 2015 NPR, but this revised NPR revises the proposal by: (1) using a brokered deposit ratio (that treats reciprocal deposits the same as under current regulations) as a measure in the financial ratios method for calculating assessment rates for established small banks instead of the previously proposed core deposit ratio; (2) removing the existing brokered deposit adjustment for established small banks; (3) revising the previously proposed one-year asset growth measure; (4) re-estimating the statistical model underlying the established small bank deposit insurance assessment system; (5) revising the uniform amount and pricing multipliers used in the financial ratios method; and (6) providing that any future changes to the statistical model underlying the established small bank deposit insurance assessment system would go through notice-and-comment rulemaking.

The FDIC also received comments on parts of the proposal in the 2015 NPR that have not changed in this revised NPR. These comments included suggestions to more heavily weight CAMELS supervisory ratings over various financial ratios and to tailor the loan mix index to individual banks, and assertions that the proposed minimum and maximum assessment rates are inappropriate. The FDIC will consider all comments submitted in response to the 2015 NPR, as well as comments submitted in response to this revised NPR, in developing a final rule. Thus, to reduce burden, those who submitted a comment on the 2015 NPR need not resubmit the

comment for it to be considered by the FDIC in developing the final rule. Comments on any aspect of this revised NPR, however, are welcome.

Policy Objectives

The primary purpose of the proposed rule, like the 2015 NPR, is to improve the risk-based deposit insurance assessment system applicable to small banks to more accurately reflect risk.⁴ Additional discussion of the policy objectives of the proposed rule can be found in the 2015 NPR.⁵

Risk-Based Deposit Insurance Assessments for Established Small Banks

Since 2007, assessment rates for established small banks have been determined by placing each bank into one of four risk categories, Risk Categories I, II, III, and IV.⁶ These four risk categories are based on two criteria: capital levels and supervisory ratings. The three capital groups – well capitalized, adequately capitalized, and undercapitalized – are based on the leverage ratio and three risk-based capital ratios used for regulatory capital purposes.⁷ The three

⁴ 12 U.S.C. 1817(b). A “risk-based assessment system” means a system for calculating an insured depository institution’s assessment based on the institution’s probability of causing a loss to the DIF due to the composition and concentration of the institution’s assets and liabilities, the likely amount of any such loss, and the revenue needs of the DIF. See 12 U.S.C. 1817(b)(1)(C).

⁵ See 80 FR at 40838 and 40842.

⁶ On January 1, 2007, the FDIC instituted separate assessment systems for small and large banks. 71 FR 69282 (Nov. 30, 2006). See 12 U.S.C. 1817(b)(1)(D) (granting the Board the authority to establish separate risk-based assessment systems for large and small insured depository institutions).

As used in this revised proposal, the term “bank” is synonymous with the term “insured depository institution” as it is used in section 3(c)(2) of the FDI Act, 12 U.S.C 1813(c)(2). As used in this revised proposal, the term “small bank” is synonymous with the term “small institution” as it is used in 12 CFR 327.8. In general, a “small bank” is one with less than \$10 billion in total assets.

⁷ The common equity tier 1 capital ratio, a new risk-based capital ratio, was incorporated into the deposit insurance assessment system effective January 1, 2015. 79 FR 70427 (November 26, 2014). Beginning January 1, 2018, a supplementary leverage ratio will also be used to determine whether an advanced approaches bank is: (a) well capitalized, if the bank is subject to the enhanced supplementary leverage ratio standards under 12 CFR 6.4(c)(1)(iv)(B), 12 CFR 208.43(c)(1)(iv)(B), or 12 CFR 324.403(b)(1)(vi), as each may be amended from time to

supervisory groups, termed A, B, and C, are based upon supervisory evaluations by the small bank's primary federal regulator, state regulator or the FDIC.⁸ Group A consists of financially sound institutions with only a few minor weaknesses (generally, banks with CAMELS composite ratings of 1 or 2); Group B consists of institutions that demonstrate weaknesses that, if not corrected, could result in significant deterioration of the institution and increased risk of loss to the DIF (generally, banks with CAMELS composite ratings of 3); and Group C consists of institutions that pose a substantial probability of loss to the DIF unless effective corrective action is taken (generally, banks with CAMELS composite ratings of 4 or 5). An institution's capital group and supervisory group determine its risk category as set out in Table 1 below.

Table 1- Determination of Risk Category

Capital Group	Supervisory Group		
	A CAMELS 1 or 2	B CAMELS 3	C CAMELS 4 or 5
Well Capitalized	Risk Category I		Risk Category III
Adequately Capitalized	Risk Category II		
Under Capitalized	Risk Category III		Risk Category IV

To further differentiate risk within Risk Category I (which includes most small banks), the FDIC uses the *financial ratios method*, which combines a weighted average of supervisory

time; and (b) adequately capitalized, if the bank is subject to the advanced approaches risk-based capital rules under 12 CFR 6.4(c)(2)(iv)(B), 12 CFR 208.43(c)(2)(iv)(B), or 12 CFR 324.403(b)(2)(vi), as each may be amended from time to time. 79 FR 70427, 70437 (November 26, 2014). The supplementary leverage ratio is expected to affect the capital group assignment of few, if any, small banks.

⁸ The term "primary federal regulator" is synonymous with the term "appropriate federal banking agency" as it is used in section 3(q) of the FDI Act, 12 U.S.C. 1813(q).

CAMELS component ratings⁹ with current financial ratios to determine a small Risk Category I bank's initial assessment rate.¹⁰

Within Risk Category I, those institutions that pose the least risk are charged a minimum initial assessment rate and those that pose the greatest risk are charged an initial assessment rate that is four basis points higher than the minimum. All other banks within Risk Category I are charged a rate that varies between these rates. In contrast, all banks in Risk Category II are charged the same initial assessment rate, which is higher than the maximum initial rate for Risk Category I. A single, higher, initial assessment rate applies to each bank in Risk Category III and another, higher, rate to each bank in Risk Category IV.¹¹

To determine a Risk Category I bank's initial assessment rate, the weighted CAMELS components and financial ratios are multiplied by statistically derived pricing multipliers, the products are summed, and the sum is added to a uniform amount that applies to all Risk Category I banks. If, however, the rate is below the minimum initial assessment rate for Risk Category I, the bank will pay the minimum initial assessment rate; if the rate derived is above the maximum initial assessment rate for Risk Category I, then the bank will pay the maximum initial rate for the risk category.

⁹ The weights applied to CAMELS components are as follows: 25 percent each for Capital and Management; 20 percent for Asset quality; and 10 percent each for Earnings, Liquidity, and Sensitivity to market risk. These weights reflect the view of the FDIC regarding the relative importance of each of the CAMELS components for differentiating risk among institutions for deposit insurance purposes. The FDIC and other bank supervisors do not use such a system to determine CAMELS composite ratings.

¹⁰ New small banks in Risk Category I, however, are charged the highest initial assessment rate in effect for that risk category. Subject to exceptions, a new bank is one that has been federally insured for less than five years as of the last day of any quarter for which it is being assessed. 12 CFR 327.8(j).

¹¹ In 2011, the Board revised and approved regular assessment rate schedules. See 76 FR 10672 (Feb. 25, 2011); 12 CFR 327.10.

The financial ratios used to determine rates come from a statistical model that predicts the probability that a Risk Category I institution will be downgraded from a composite CAMELS rating of 1 or 2 to a rating of 3 or worse within one year. The probability of a CAMELS downgrade is intended as a proxy for the bank's probability of failure. When the model was developed in 2006, the FDIC decided not to attempt to determine a bank's probability of failure because of the lack of bank failures in the years between the end of the bank and thrift crisis in the early 1990s and 2006.¹²

The financial ratios method does not apply to new small banks or to insured branches of foreign banks (insured branches).¹³

Assessment Rates under Current Rules

In 2011, the FDIC adopted a schedule of assessment rates designed to ensure that the reserve ratio reaches 1.15 percent by September 30, 2020.¹⁴ On October 22, 2015, the FDIC authorized publication of a notice of proposed rulemaking to implement the Dodd-Frank Act

¹² See 71 FR 41910, 41913 (July 24, 2006).

¹³ Insured branches are deemed small banks for purposes of the deposit insurance assessment system.

¹⁴ See 76 FR 10672. Among other things, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), enacted in July 2010: (1) raised the minimum designated reserve ratio (DRR), which the FDIC must set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removed the upper limit on the DRR (which was formerly capped at 1.5 percent), 12 U.S.C. 1817(b)(3)(B); (2) required that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required), Public Law 111-203, 334(d), 124 Stat. 1376, 1539 (12 U.S.C. 1817(note)); and (3) required that, in setting assessments, the FDIC "offset the effect of [requiring that the reserve ratio reach 1.35 percent by September 30, 2020 rather than 1.15 percent by the end of 2016] on insured depository institutions with total consolidated assets of less than \$10,000,000,000", Public Law 111-203, 334(e), 124 Stat. 1376, 1539 (12 U.S.C. 1817(note)). The Dodd-Frank Act also: (1) eliminated the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent, 12 U.S.C. 1817(e), and (2) continued the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but granted the FDIC sole discretion in determining whether to suspend or limit the declaration of payment or dividends, 12 U.S.C. 1817(e)(2)(A) - (B).

requirements that the fund reserve ratio reach 1.35 percent by September 30, 2020 and that the effect of the higher minimum reserve ratio on small banks be offset.¹⁵

The initial assessment rates currently in effect for small and large banks are set forth in Table 2 below.¹⁶

Table 2 - Initial Base Assessment Rates

(In basis points per annum)

	Risk Category					
	I*		II	III	IV	Large & Highly Complex Institutions**
	Minimum	Maximum				
Annual Rates (in basis points)	5	9	14	23	35	5 - 35

* Initial base rates that are not the minimum or maximum will vary between these rates.

** See 12 CFR 327.8(f) and 12 CFR 327.8(g) for the definition of large and highly complex institutions.

An institution's total assessment rate may vary from the initial assessment rate as the result of possible adjustments.¹⁷ After applying all possible adjustments, minimum and maximum total assessment rates for each risk category are set forth in Table 3 below.

¹⁵ See 80 FR 68780.

¹⁶ Before adopting the assessment rate schedules currently in effect, the FDIC undertook a historical analysis to determine how high the reserve ratio would have to have been to have maintained both a positive balance and stable assessment rates from 1950 through 2010. The historical analysis and long-term fund management plan are described at 76 FR at 10675 and 75 FR 66272, 66272-281 (Oct. 27, 2010). The analysis shows that the fund reserve ratio would have needed to be approximately 2 percent or more before the onset of the 1980s and 2008 crises to maintain both a positive fund balance and stable assessment rates, assuming, in lieu of dividends, that the long-term industry average nominal assessment rate would have been reduced by 25 percent when the reserve ratio reached 2 percent, and by 50 percent when the reserve ratio reached 2.5 percent.

¹⁷ A bank's total base assessment rate can vary from its initial base assessment rate as the result of three possible adjustments. Two of these adjustments – the unsecured debt adjustment and the depository institution debt adjustment (DIDA) – apply to all banks (except that the unsecured debt adjustment does not apply to new banks or insured branches). The unsecured debt adjustment lowers a bank's assessment rate based on the bank's ratio of long-term unsecured debt to the bank's assessment base. The DIDA increases a bank's assessment rate when it holds long-term, unsecured debt issued by another insured depository institution. The third possible adjustment – the brokered deposit adjustment – applies only to small banks in Risk Category II, III and IV (and to large and highly complex institutions that are not well capitalized or that are not CAMELS composite 1 or 2-rated). It does not apply to insured branches. The brokered deposit adjustment increases a bank's assessment when it holds significant amounts of brokered deposits. 12 CFR 327.9 (d).

Table 3 - Total Base Assessment Rates^{*}

(In basis points per annum)

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large & Highly Complex Institutions^{**}
Initial Assessment Rate	5 – 9	14	23	35	5 - 35
Unsecured Debt Adjustment ^{***}	-4.5 to 0	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	0 to 10	0 to 10	0 to 10	0 to 10
Total Assessment Rate	2.5 to 9	9 to 24	18 to 33	30 to 45	2.5 to 45

^{*} Total base assessment rates do not include the DIDA.

^{**} See 12 CFR 327.8(f) and (g) for the definition of large and highly complex institutions.

^{***} The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate. The unsecured debt adjustment does not apply to new banks or insured branches.

In 2011, consistent with the FDIC's long-term fund management plan, the Board adopted lower, moderate assessment rates that will go into effect when the DIF reserve ratio reaches 1.15 percent.¹⁸ Pursuant to the FDIC's authority to set assessments, regulations currently in effect provide that the initial base and total base assessment rates set forth in Table 4 below will take effect beginning the assessment period after the fund reserve ratio first meets or exceeds 1.15 percent, without the necessity of further action by the Board. The rates are to remain in effect unless and until the reserve ratio meets or exceeds 2 percent.¹⁹

¹⁸ See 76 FR at 10717-720.

¹⁹ For new banks, however, the rates will remain in effect even if the reserve ratio equals or exceeds 2 percent (or 2.5 percent).

Table 4 - Initial and Total Base Assessment Rates *

(In basis points per annum)

Once the reserve ratio reaches 1.15 percent²⁰

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large & Highly Complex Institutions**
Initial Base Assessment Rate	3 – 7	12	19	30	3 - 30
Unsecured Debt Adjustment ***	-3.5 to 0	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	0 to 10	0 to 10	0 to 10	0 to 10
Total Base Assessment Rate	1.5 to 7	7 to 22	14 to 29	25 to 40	1.5 to 40

* Total base assessment rates do not include the DIDA.

** See 12 CFR 327.8(f) and (g) for the definition of large and highly complex institutions.

*** The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 3 basis points will have a maximum unsecured debt adjustment of 1.5 basis points and cannot have a total base assessment rate lower than 1.5 basis points. The unsecured debt adjustment does not apply to new banks or insured branches.

In lieu of dividends, and pursuant to the FDIC's authority to set assessments and consistent with the FDIC's long-term fund management plan, the Board also adopted a lower schedule of assessment rates that will come into effect without further action by the Board when the fund reserve ratio at the end of the prior assessment period meets or exceeds 2 percent, but is less than 2.5 percent, and another, still lower, schedule of assessment rates that will come into effect, again, without further action by the Board when the fund reserve ratio at the end of the prior assessment period meets or exceeds 2.5 percent.²¹

The Board has the authority to adopt rates without further notice and comment rulemaking that are higher or lower than the total assessment rates (also known as the total base assessment rates), provided that: (1) the Board cannot increase or decrease rates from one quarter

²⁰ The reserve ratio for the immediately prior assessment period must also be less than 2 percent.

²¹ New small banks will remain subject to the assessment schedule in Table 4 when the reserve ratio reaches 2 percent and 2.5 percent.

to the next by more than two basis points; and (2) cumulative increases and decreases cannot be more than two basis points higher or lower than the total base assessment rates.²²

II. The Proposed Rule

Description of the Proposed Rule

The financial ratios method as revised would use the measures described in the right-hand column of Table 5 below. For comparison's sake, the measures currently used in the financial ratios method are set out on the left-hand column of the table. To avoid unnecessary burden, the proposal will not require established small banks to report any new data in their Reports of Condition and Income (Call Reports).

Table 5 – Comparison of Current and Proposed Measures in the Financial Ratios Method

Current Risk Category I Financial Ratios Method	Proposed Financial Ratios Method
<ul style="list-style-type: none"> Weighted Average CAMELS Component Rating 	<ul style="list-style-type: none"> Weighted Average CAMELS Component Rating
<ul style="list-style-type: none"> Tier 1 Leverage Ratio 	<ul style="list-style-type: none"> Tier 1 Leverage Ratio
<ul style="list-style-type: none"> Net Income before Taxes/Risk-Weighted Assets 	<ul style="list-style-type: none"> Net Income before Taxes/Total Assets
<ul style="list-style-type: none"> Nonperforming Assets/Gross Assets 	<ul style="list-style-type: none"> Nonperforming Loans and Leases/Gross Assets
	<ul style="list-style-type: none"> Other Real Estate Owned/Gross Assets
<ul style="list-style-type: none"> Adjusted Brokered Deposit Ratio 	<ul style="list-style-type: none"> Brokered Deposit Ratio
	<ul style="list-style-type: none"> One Year Asset Growth
<ul style="list-style-type: none"> Net Loan Charge-Offs/Gross Assets 	
<ul style="list-style-type: none"> Loans Past Due 30-89 Days/Gross Assets 	
	<ul style="list-style-type: none"> Loan Mix Index

²² See 12 CFR 327.10(f); 76 FR at 10684.

All of the measures proposed in this revised NPR are derived from a statistical analysis that estimates a bank's probability of failure within three years. Each of the measures is statistically significant in predicting a bank's probability of failure over that period. The statistical analysis used bank financial data and CAMELS ratings from 1985 through 2011, failure data from 1986 through 2014, and loan charge-off data from 2001 through 2014.²³ Appendix 1 to the Supplementary Information section of the 2015 NPR, and Appendix 1 to the Supplementary Information Section and Appendix E of this proposed rule describe the statistical analysis and the derivation of these measures in detail.

Two of the measures proposed in this revised NPR – the weighted average CAMELS component rating and the tier 1 leverage ratio – are identical to the measures currently used in the financial ratios method and are as proposed in the 2015 NPR. The net income before taxes/total assets measure in this revised NPR is virtually identical to the measure proposed in the 2015 NPR and is also almost identical to the current measure. The denominator in the net income before taxes/total assets measure in the revised proposal is total assets rather than risk-weighted assets as under current rules. The definition of the measure in the revised proposal also differs from the definitions in both the 2015 NPR and current rules in that it no longer refers to extraordinary items.²⁴ The current nonperforming assets/gross assets measure includes other real

²³ For certain lagged variables, such as one-year asset growth rates, the statistical analysis also used bank financial data from 1984.

²⁴ The numerator of the proposed net income measure definition is income before applicable income taxes and discontinued operations for the most recent twelve months, rather than income before income taxes and extraordinary items and other adjustments for the most recent twelve months as in the 2015 NPR and current rules. In the current Call Report, extraordinary items and discontinued operations are combined for reporting purposes. Income for the net income ratio is currently determined before both extraordinary items and discontinued operations. In January 2015, the Financial Accounting Standards Board (FASB) eliminated from U.S. generally accepted accounting principles (GAAP) the concept of extraordinary items, effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. In September 2015, the Federal banking agencies published a joint Paperwork Reduction Act (PRA) notice and request for comment on proposed changes to the Call Report, including the elimination of the concept of extraordinary items and revision of affected data items. See 80

estate owned. In this revised NPR and in the 2015 NPR, other real estate owned/gross assets is a separate measure from nonperforming loans and leases/gross assets.

The remaining three proposed financial measures, described in detail below, differ from the measures in the current established small bank deposit assessment system.²⁵ The FDIC proposes to replace the adjusted brokered deposit ratio currently used in the financial ratios method with two separate measures: a brokered deposit ratio (rather than a core deposit ratio as proposed in the 2015 NPR) and a one-year asset growth measure. As stated above, these two financial measures – the brokered deposit ratio and the one year asset growth measure – differ from the measures proposed in the 2015 NPR. The third proposed new measure, the loan mix index, remains as proposed in the 2015 NPR.

Brokered deposit ratio

Under current assessment rules, brokered deposits affect a small bank's assessment rate based on its Risk Category. For established small banks that are assigned to Risk Category I (those that are well capitalized and have a CAMELS composite rating of 1 or 2), the adjusted

FR 56539 (Sept. 18, 2015). That PRA process is still in progress and the FDIC expects that, at some future time, references to extraordinary items will be removed from the Call Report. Nevertheless, items that would have met the criteria for classification as extraordinary before the effective date of the FASB's accounting change will no longer be reported as such in the Call Report income statement after the effective date of the change. Discontinued operations, however, will continue to be reported in the Call Report income statement as a separate item in the future and, under the revised proposal, income for the net income ratio would be determined before discontinued operations. See, e.g., 80 FR at 56547. Therefore, the FDIC is proposing to define the net income measure to reflect the anticipated Call Report changes. The FDIC recognizes that this revised proposal may be finalized and become effective before the Federal banking agencies finalize the proposed Call Report changes.

Because the numerator of the proposed net income measure is defined to include income for the most recent twelve months, there may be a transition period in which income for the most recent twelve months may include income from periods before the elimination from GAAP of the concept of extraordinary items has taken effect. For those portions of the most recent twelve months before this elimination has taken effect, income will be determined as income before income taxes and extraordinary items and other adjustments.

²⁵ Two measures in the current financial ratios method – net loan charge-offs/gross assets and loans past due 30-89 days/gross assets – are not used in the statistical analysis and are not among the measures in the 2015 NPR or this revised proposal.

brokered deposit ratio is one of the financial ratios used to determine a bank's initial assessment rate. The adjusted brokered deposit ratio increases a bank's initial assessment rate when a bank has brokered deposits that exceed 10 percent of its domestic deposits, combined with a high asset growth rate.²⁶ Reciprocal deposits are not included with other brokered deposits in the adjusted brokered deposit ratio.

Established small banks in Risk Categories II, III, and IV (those that are less than well capitalized or that have a CAMELS composite rating of 3, 4, or 5) are subject to the brokered deposit adjustment, one of three possible adjustments that can increase or decrease a bank's initial assessment rate. The brokered deposit adjustment increases a bank's assessment rate if it has brokered deposits in excess of 10 percent of its domestic deposits.²⁷ Unlike the adjusted brokered deposit ratio, the brokered deposit adjustment includes *all* brokered deposits, *including* reciprocal deposits, and is not affected by asset growth rates. As the FDIC noted when it adopted the brokered deposit adjustment and included reciprocal deposits with other brokered deposits in the adjustment, "The statutory restrictions on accepting, renewing or rolling over brokered deposits when an institution becomes less than well capitalized apply to all brokered deposits, including reciprocal deposits. Market restrictions may also apply to these reciprocal deposits when an institution's condition declines."²⁸

²⁶ The adjusted brokered deposit ratio can affect assessment rates only if a bank's brokered deposits (excluding reciprocal deposits) exceed 10 percent of its non-reciprocal brokered deposits and its assets have grown more than 40 percent in the previous 4 years. 12 CFR 327 Appendix A to Subpart A.

Few Risk Category I banks have both high levels of non-reciprocal brokered deposits and high asset growth, so the adjusted brokered deposit ratio affects relatively few banks. As of September 30, 2015, the adjusted brokered deposit ratio affected the assessment rate of 95 banks.

²⁷ 12 CFR 327.9(d)(3); 12 USC 1831f.

²⁸ 74 FR 9525, 9541 (Mar. 9, 2009).

The FDIC proposes to replace the adjusted brokered deposit ratio currently used in the financial ratios method with a brokered deposit ratio, measured as the ratio of brokered deposits to total assets. As discussed below, the FDIC also proposes to eliminate the existing brokered deposit adjustment for established small banks. Under the proposed brokered deposit ratio, brokered deposits would increase an assessment rate only for an established small bank that holds brokered deposits in excess of 10 percent of total assets. For a bank that is well capitalized and has a CAMELS composite rating of 1 or 2, reciprocal deposits would be deducted from brokered deposits. For a bank that is less than well capitalized or has a CAMELS composite rating of 3, 4 or 5, however, reciprocal deposits would be included with other brokered deposits.

This treatment of reciprocal deposits is generally consistent with the 442 comment letters on the 2015 NPR arguing that reciprocal deposits should not be treated as brokered deposits for assessment purposes.²⁹ Some commenters encouraged the FDIC to revise the proposal in the 2015 NPR so that it reflects the current treatment of reciprocal deposits, which this revised proposal does. As described above, in the current system, the adjusted brokered deposit, which applies to well-capitalized established small banks that have CAMELS composite ratings of 1 or 2, excludes reciprocal deposits.³⁰ The brokered deposit adjustment, however, which applies to all established small banks that are less than well capitalized or have CAMELS composite

²⁹ On the other hand, four commenters asserted that the FDIC should not charge higher assessment rates to banks that hold brokered deposits, but should instead consider how banks used brokered deposits and whether they remain profitable and well-capitalized. The FDIC's statistical analyses have consistently found, however, that brokered deposits are correlated with a higher probability of failure. See FDIC Study on Core Deposits and Brokered Deposits (2011), 46-47 and 66-68 (Appendix A: Excerpts from Material Loss Reviews And Summaries of OIG Semiannual Reports to Congress).

³⁰ 12 CFR Part 327 Appendix A to Subpart A.

ratings of 3, 4 or 5, includes reciprocal deposits.³¹ The proposed brokered deposit ratio makes the same distinction with respect to reciprocal deposits.

The FDIC also received 40 comment letters on the 2015 NPR arguing that reciprocal deposits should be treated as core deposits or are the functional equivalent of core deposits. The FDIC analyzed the characteristics of reciprocal deposits in its Study on Core Deposits and Brokered Deposits and concluded that, “While the FDIC agrees that reciprocal deposits do not present all of the problems that traditional brokered deposits present, they pose sufficient potential problems—particularly their dependence on a network and the network’s continued willingness to allow a bank to participate, and the potential of supporting rapid growth if not based upon a relationship—that *they should not be considered core . . .*”³² (Emphasis added.) The proposed brokered deposit ratio, which deducts reciprocal deposits for well capitalized, well rated banks, is consistent with the Study on Core Deposits and Brokered Deposits and with the majority of comments received.

Sixteen commenters, including banking trade associations, cautioned against penalizing the use of Federal Home Loan Bank advances in determining assessment rates. Some commenters also argued that lowering assessments for core deposits, as proposed in the 2015 NPR, would make Federal Home Loan Bank advances relatively more expensive. Replacing the previously proposed core deposit ratio with a brokered deposit ratio would not change the current treatment of Federal Home Loan Bank advances in the small bank deposit insurance assessment system. In contrast, treating reciprocal deposits as core deposits in the core deposit ratio would create an incentive for established small banks to switch Federal Home Loan Bank advances and

³¹ 12 CFR 327.9(d)(3); 12 USC 1831f.

³² FDIC Study on Core Deposits and Brokered Deposits (2011), 54.

other funding sources (other than core deposits) to reciprocal deposit funding, with unpredictable effects on banks' probability of failure.

One-year asset growth measure

The FDIC received 18 comments on the proposed one-year asset growth measure in the 2015 NPR. Some commenters argued that the one-year asset growth rate should not penalize normal growth. One commenter suggested that asset growth should not affect assessments until it exceeds an industry-based norm, while other commenters suggested using the "A" ("Asset quality") CAMELS component instead of a one-year asset growth rate or taking mitigating factors into account in the growth rate.

In response to comments, the FDIC is proposing that the one-year asset growth measure increase the assessment rate only for an established small bank that has had one-year asset growth greater than 10 percent. With this modification, the measure will raise assessment rates for established small banks that grow rapidly (other than through merger or by acquiring failed banks), but will not increase assessments for normal asset growth.³³

Loan mix index

The proposed loan mix index is unchanged from the 2015 NPR. As described in the 2015 NPR, the loan mix index is a measure of the extent to which a bank's total assets include higher-risk categories of loans. The index uses historical charge-off rates to identify loan types with higher risk. Each category of loan in a bank's loan portfolio is divided by the bank's total

³³ From 1985 through 2014, one-year asset growth rates greater than 10 percent represented approximately the 70th percentile of small banks. A 10 percent one-year asset growth rate measure is generally consistent with the adjusted brokered deposit ratio in the current Risk Category I financial ratios method, which raises assessment rates only when small banks have both four-year asset growth rates in excess of 40 percent and high levels of brokered deposits.

assets to determine the percentage of the bank's assets represented by that category of loan. Each percentage is then multiplied by that category of loan's historical weighted average industry-wide charge-off rate. The products are then summed to determine the loan mix index value for that bank.

The loan categories in the loan mix index were selected based on the availability of category-specific charge-off rates over a sufficiently lengthy period (2001 through 2014) to be representative. The loan categories exclude credit card loans.³⁴ For each loan category, the weighted-average charge-off rate weights each industry-wide charge-off rate for each year by the number of bank failures in that year. Thus, charge-off rates from 2008 through 2014, during the recent banking crisis, have a much greater influence on the weighted-average charge-off rate than do charge-off rates from the years before the crisis, when few failures occurred. The weighted averages assure that types of loans that have high charge-off rates during downturns (*i.e.*, periods marked by significant insurance fund losses) have an appropriate influence on assessment rates.

Table 6 below illustrates how the loan mix index is calculated for a hypothetical bank.

³⁴ Credit card loans were excluded from the loan mix index because they produced anomalously high assessment rates for banks with significant credit card loans. Credit card loans have very high charge-off rates, but they also tend to have very high interest rates to compensate. In addition, few small banks have significant concentrations of credit card loans. Consequently, credit card loans are omitted from the index.

Table 6- Loan Mix Index for a Hypothetical Bank³⁵

	Weighted Charge-off Rate Percent	Loan Category as a Percent of Hypothetical Bank's Total Assets	Product of Two Columns to the Left
Construction & Development	4.50	1.40	6.29
Commercial & Industrial	1.60	24.24	38.75
Leases	1.50	0.64	0.96
Other Consumer	1.46	14.93	21.74
Loans to Foreign Government	1.34	0.24	0.32
Real Estate Loans Residual	1.02	0.11	0.11
Multifamily Residential	0.88	2.42	2.14
Nonfarm Nonresidential	0.73	13.71	9.99
1-4 Family Residential	0.70	2.27	1.58
Loans to Depository banks	0.58	1.15	0.66
Agricultural Real Estate	0.24	3.43	0.82
Agriculture	0.24	5.91	1.44
SUM (Loan Mix Index)		70.45	84.79

The weighted charge-off rates in the table are the same for all established small banks.

The remaining two columns vary from bank to bank, depending on the bank's loan portfolio.

For each loan type, the value in the rightmost column is calculated by multiplying the weighted charge-off rate by the bank's loans of that type as a percent of its total assets. In this illustration, the sum of the right-hand column (84.79) is the loan mix index for this bank.

Calculating the Initial Assessment Rate

As in the current methodology for Risk Category I small banks, and as proposed in the 2015 NPR, under the revised proposal the weighted CAMELS components and financial ratios would be multiplied by statistically derived pricing multipliers, the products would be summed,

³⁵ As discussed above, the loan mix index uses loan charge-off data from 2001 through 2014.

The table shows industry-wide weighted charge-off percentage rates, the loan category as a percentage of total assets, and the products to two decimal places. In fact, the FDIC proposes to use seven decimal places for industry-wide weighted charge-off percentage rates, and as many decimal places as permitted by the FDIC's computer systems for the loan category as a percentage of total assets and the products. The total (the loan mix index itself) would use three decimal places.

and the sum would be added to a uniform amount that would be: (a) derived from the statistical analysis, (b) adjusted for assessment rates set by the FDIC, and (c) applied to all established small banks.³⁶ The total would equal the bank's initial assessment rate. If, however, the resulting rate were below the minimum initial assessment rate for established small banks, the bank's initial assessment rate would be the minimum initial assessment rate; if the rate were above the maximum, then the bank's initial assessment rate would be the maximum initial rate for established small banks. In addition, if the resulting rate for an established small bank were below the minimum or above the maximum initial assessment rate applicable to banks with the bank's CAMELS composite rating, the bank's initial assessment rate would be the respective minimum or maximum assessment rate for an established small bank with its CAMELS composite rating. This approach would allow rates to vary incrementally across a wide range of rates for all established small banks. The conversion of the statistical model to pricing multipliers and the uniform amount is discussed further below and in detail in the proposed Appendix E. Appendix E also discusses the derivation of the pricing multipliers and the uniform amount.

³⁶ Current rules provide that: (1) under specified conditions, certain subsidiary small banks will be considered established rather than new, 12 CFR 327.8(k)(4); and (2) the time that a bank has spent as a federally insured credit union is included in determining whether a bank is established, 12 CFR 327.8(k)(5). If a Risk Category I small bank is considered established under these rules, but has no CAMELS component ratings, its initial assessment rate is 2 basis points above the minimum initial assessment rate applicable to Risk Category I (which is equivalent to 2 basis points above the minimum initial assessment rate for established small banks) until it receives CAMELS component ratings. Thereafter, the assessment rate is determined by annualizing, where appropriate, financial ratios obtained from all quarterly Call Reports that have been filed, until the bank files four quarterly Call Reports. As proposed in the 2015 NPR, for small banks that are considered established under these rules, but do not have CAMELS component ratings, the FDIC proposes the following:

1. If the bank has no CAMELS composite rating, its initial assessment rate would be 2 basis points above the minimum initial assessment rate for established small banks until it receives a CAMELS composite rating; and
2. If the bank has a CAMELS composite rating but no CAMELS component ratings, its initial assessment rate would be determined using the financial ratios method by substituting its CAMELS composite rating for its weighted average CAMELS component rating and, if the bank has not yet filed four quarterly Call Reports, by annualizing, where appropriate, financial ratios obtained from all quarterly Call Reports that have been filed.

Adjustments to Initial Base Assessment Rates

As discussed above, the FDIC proposes to eliminate the brokered deposit adjustment for established small banks.³⁷ Under current rules, the brokered deposit adjustment only applies to small banks if they are in Risk Category II, III, and IV. The brokered deposit adjustment increases a bank's assessment when it holds significant amounts of brokered deposits. To avoid assessing banks twice for holding brokered deposits (because the brokered deposit ratio would apply to all established small banks), the FDIC proposes eliminating the brokered deposit adjustment.

As under current rules, the DIDA would continue to apply to all banks, and the unsecured debt adjustment would continue to apply to all banks except new banks and insured branches.³⁸

Proposed Assessment Rates

Like the 2015 NPR, this revised proposal preserves the lower range of initial base assessment rates previously adopted by the Board. Under current regulations, once the reserve ratio reaches 1.15 percent, initial base assessment rates will fall automatically from the current 5 basis point to 35 basis point range to a 3 basis point to 30 basis point range, as reflected in Table 4. The FDIC adopted the range of initial assessment rates in this rate schedule pursuant to its long-term fund management plan as the FDIC's best estimate of the assessment rates that would have been needed from 1950 to 2010 to maintain a positive fund balance during the past two banking crises. This assessment rate schedule remains the FDIC's best estimate of the long-term

³⁷ As under rules currently in effect, the brokered deposit adjustment would continue to apply to all new small institutions in Risk Categories II, III, and IV, and all large and highly complex institutions, except large and highly complex institutions that are well capitalized and have a CAMELS composite rating of 1 or 2. As under rules currently in effect, the brokered deposit adjustment would not apply to insured branches.

³⁸ As under rules currently in effect, however, no adjustments would apply to bridge banks or conservatorships. These banks would continue to be charged the minimum assessment rate applicable to small banks.

rates needed. Consequently, and as discussed in greater detail further below and in detail in Appendix E, the FDIC proposes to convert its statistical model to assessment rates within this 3 basis point to 30 basis point assessment range in a revenue neutral way; that is, in a manner that does not materially change the aggregate assessment revenue collected from established small banks.

As set out in the rate schedule in Table 7 below, for established small banks, the FDIC proposes to eliminate risk categories but maintain the range of initial assessment rates that the Board has previously determined will go into effect starting the quarter after the reserve ratio reaches 1.15 percent.³⁹ Unless revised by the Board, these rates would remain in effect as long as the reserve ratio is less than 2 percent. Table 7 also includes a maximum assessment rate that would apply to CAMELS composite 1- and 2-rated banks and minimum assessment rates that would apply to CAMELS composite 3-rated banks and CAMELS composite 4- and 5-rated banks.

³⁹ See 12 CFR 327.10(b); 76 FR at 10718.

Table 7 - Initial and Total Base Assessment Rates *

(In basis points per annum)

Once the reserve ratio reaches 1.15 percent⁴⁰

	Established Small Banks			Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30
Unsecured Debt Adjustment ***	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1.5 to 16	3 to 30	11 to 30	1.5 to 40

* Total base assessment rates in the table do not include the DIDA.

** See 12 CFR 327.8(f) and (g) for the definition of large and highly complex institutions.

*** The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 3 basis points will have a maximum unsecured debt adjustment of 1.5 basis points and cannot have a total base assessment rate lower than 1.5 basis points.

The FDIC proposes to maintain the range of initial assessment rates, set out in the rate schedule in Table 8 below, that the Board previously determined will go into effect starting the quarter after the reserve ratio reaches or exceeds 2 percent and is less than 2.5 percent. Unless revised by the Board, these rates would remain in effect as long as the reserve ratio is in this range. Table 8 also includes the maximum assessment rates that would apply to CAMELS composite 1- and 2-rated banks and the minimum assessment rates that would apply to CAMELS composite 3-rated banks and CAMELS composite 4- and 5-rated banks.

⁴⁰ The reserve ratio for the immediately prior assessment period must also be less than 2 percent.

Table 8 - Initial and Total Base Assessment Rates *

(In basis points per annum)

If the reserve ratio for the prior assessment period is equal to or greater than 2 percent and less than 2.5 percent

	Established Small Banks			Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	2 to 14	5 to 28	14 to 28	2 to 28
Unsecured Debt Adjustment ***	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1 to 14	2.5 to 28	9 to 28	1 to 38

* Total base assessment rates in the table do not include the DIDA.

** See 12 CFR 327.8(f) and (g) for the definition of large and highly complex institutions.

*** The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 2 basis points will have a maximum unsecured debt adjustment of 1 basis point and cannot have a total base assessment rate lower than 1 basis point.

The FDIC proposes to maintain the range of initial assessment rates, set out in the rate schedule in Table 9 below, that the Board previously determined will go into effect, again without further action by the Board, when the fund reserve ratio at the end of the prior assessment period meets or exceeds 2.5 percent. Unless changed by the Board, these rates would remain in effect as long as the reserve ratio is at or above this level. Table 9 also includes the maximum assessment rates that would apply to CAMELS composite 1- and 2-rated banks and the minimum assessment rates that would apply to CAMELS composite 3-rated banks and CAMELS composite 4- and 5-rated banks.

Table 9 - Initial and Total Base Assessment Rates *

(In basis points per annum)

If the reserve ratio for the prior assessment period is equal to or greater than 2.5 percent

	Established Small Banks			Large & Highly Complex Institutions**
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	1 to 13	4 to 25	13 to 25	1 to 25
Unsecured Debt Adjustment ***	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	0.5 to 13	2 to 25	8 to 25	0.5 to 35

* Total base assessment rates in the table do not include the DIDA.

** See 12 CFR 327.8(f) and (g) for the definition of large and highly complex institutions.

*** The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus, for example, an insured depository institution with an initial base assessment rate of 1 basis point will have a maximum unsecured debt adjustment of 0.5 basis points and cannot have a total base assessment rate lower than 0.5 basis points.

As proposed in the 2015 NPR, with respect to each of the three assessment rate schedules (Tables 7, 8 and 9), the FDIC proposes that the Board would retain its authority to uniformly adjust assessment rates up or down from the total base assessment rate schedule without further rulemaking, as long as the adjustment does not exceed 2 basis points. Also, with respect to each of the three schedules, the FDIC proposes that, if a bank's CAMELS composite or component ratings change during a quarter in a way that changes the institution's initial base assessment rate, then its assessment rate would be determined separately for each portion of the quarter in which it had different CAMELS composite or component ratings.

Conversion of Statistical Model to Pricing Multipliers and Uniform Amount

As discussed above, and as proposed in the 2015 NPR, the FDIC proposes to convert the statistical model to the assessment rates set out in Table 7 in a revenue neutral manner.⁴¹ Specifically, and as described in detail in Appendix E, the FDIC proposes to convert the statistical model to assessment rates to ensure that aggregate assessments for an assessment period shortly before adoption of a final rule would have been approximately the same under a final rule as they would have been under the assessment rate schedule set forth in Table 4 (the rates that, under current rules, will automatically go into effect when the reserve ratio reaches 1.15 percent).

To illustrate the conversion, Table 10 below sets out the pricing multipliers and uniform amounts that would have resulted if the FDIC had converted the statistical model to the assessment rate schedule set out in Table 7 (with a range of assessment rates from 3 basis points to 30 basis points). The pricing multipliers and uniform amount have been set so that, for the third quarter of 2015, aggregate assessments for all established small banks under the revised proposal would have equaled, as closely as reasonably possible, aggregate assessments for all established small banks had the assessment rate schedule in Table 4 been in effect for that assessment period.⁴²

⁴¹ The FDIC proposes to convert a linear version of the model, which was estimated in a non-linear manner. (See Appendix E.) The conversion using a linear version of the model preserves the same rank ordering as the non-linear model, but using the linear version of the model allows initial assessment rates to be expressed as a linear function of the model variables. The FDIC also used a linear version of its original non-linear downgrade probability statistical model when it instituted variable rates within Risk Category 1 effective January 1, 2007.

⁴² Initial assessment rates under the rate schedule actually in effect for the third quarter of 2015 ranged from 5 basis points to 35 basis points, since the DIF reserve ratio was under 1.15 percent.

The pricing multipliers and uniform amount in Table 10 differ from those in the 2015 NPR because the FDIC has re-estimated the statistical model for this revised proposal using a revised definition of the one-year asset growth measure and a brokered deposit ratio in place of a core deposit ratio.

Partly because the actual conversion will be based upon a later quarter, the pricing multipliers and the uniform amount shown in Table 10 are likely to differ somewhat from those in a final rule.

Table 10 - Pricing Multipliers and the Uniform Amount

Under a Hypothetical Conversion of the Statistical Model to Assessment Rates

Based on the Third Quarter of 2015

Model Measures	Pricing Multiplier
Weighted Average CAMELS Component Rating	1.443
Tier 1 Leverage Ratio	-1.201
Net Income Before Taxes/Total Assets	-0.684
Nonperforming Loans and Leases/Gross Assets	0.895
Other Real Estate Owned/Gross Assets	0.506
Brokered Deposit Ratio	0.251
One Year Asset Growth	0.058
Loan Mix Index	0.077
Uniform Amount	7.398

Updating the Statistical Model, Pricing Multipliers and Uniform Amount

As discussed above, the statistical analysis used bank financial data and CAMELS ratings from 1985 through 2011, failure data from 1986 through 2014 and loan charge-off data from

2001 through 2014.⁴³ In response to comments on the 2015 NPR, the FDIC proposes that any changes to the small bank deposit insurance pricing model would go through notice-and-comment rulemaking. The FDIC does not anticipate a need for annual updates, since variables and coefficients in the underlying model are not likely to change much absent a significant number of failures.

Insured Branches of Foreign Banks and New Small Banks

As discussed in the 2015 NPR, this revised proposal makes no changes to the current rules governing the assessment rate schedules applicable to insured branches or to the assessment rate schedule applicable to new small banks. The revised proposal also makes no changes to the way in which assessment rates for insured branches and new small banks are determined.

Implementation of the Proposed Rule

The FDIC is proposing that a final rule would take effect the quarter after the Deposit Insurance Fund (DIF) reserve ratio has reached 1.15 percent (or the first quarter after a final rule is adopted that the rule can take effect, whichever is later).

III. Expected Effects of the Revised Proposal

Effect on Assessment Rates

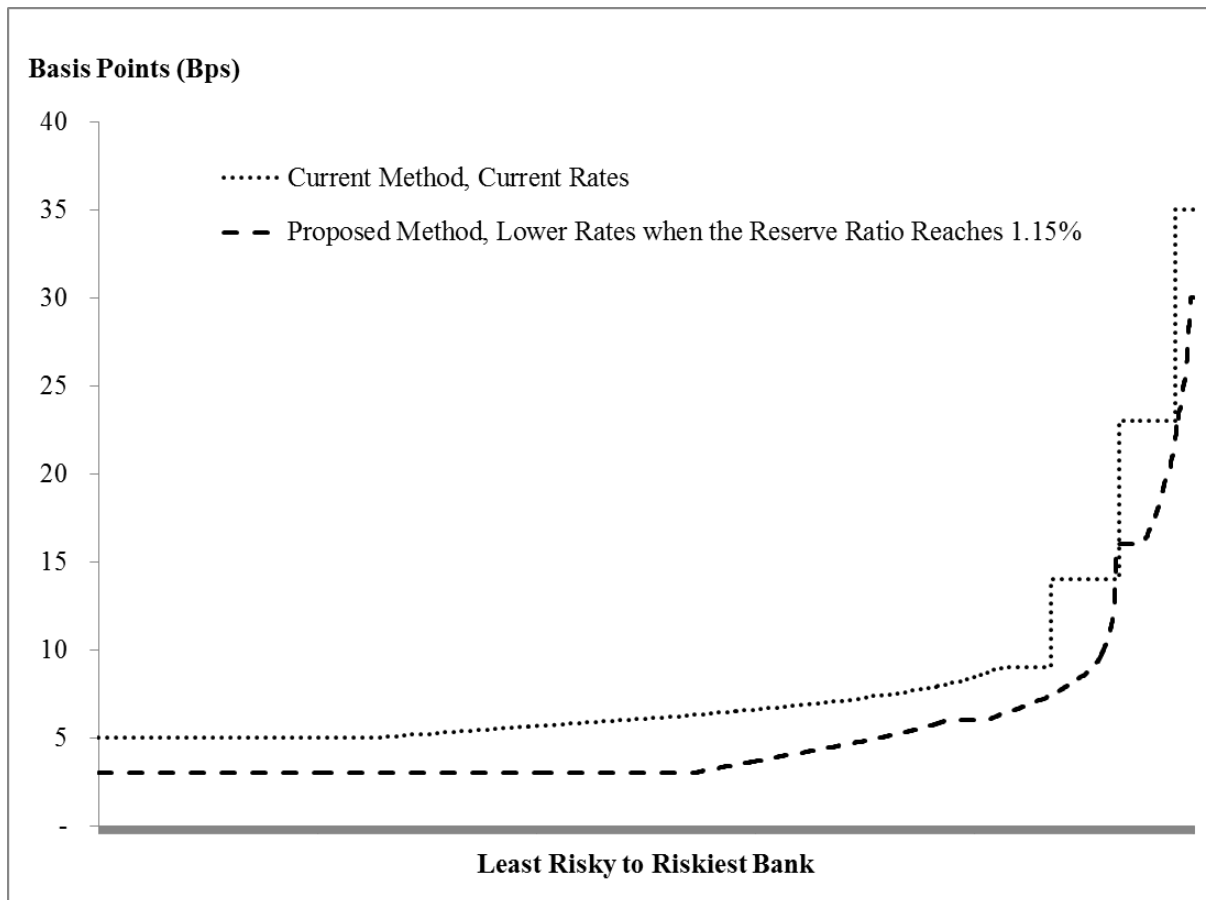
To illustrate the effects of the revised proposal on established small bank assessment rates, the FDIC compared actual assessment rates under the current system for established small banks for the third quarter of 2015, using a range of initial assessment rates of 5 basis points to

⁴³ Also as discussed above, for certain lagged variables, such as one-year asset growth rates, the statistical analysis also used bank financial data from 1984.

35 basis points, with the proposed assessment rates in Table 7 of this revised NPR, which has an overall range of initial assessment rates of 3 basis points to 30 basis points; the assessment rates in Table 7 would take effect the quarter after the DIF reserve ratio reaches 1.15 percent.⁴⁴ The proportion (and number) of established small banks paying the minimum initial assessment rate would have increased significantly, from 26 percent (1,611 small banks) to 56 percent under the revised proposal (3,475 small banks). The proportion (and number) of established small banks paying the maximum initial assessment rate would have decreased from 0.5 percent of established small banks (31 small banks) to 0.1 percent of established small banks under the revised proposal (5 small banks). Chart 1 below graphically compares the distribution of established small bank initial assessment rates under this illustration. The horizontal axis in the chart represents established small banks ranked by risk, from the least risky on the left to the most risky on the right. Because actual risk rankings under the current system differ from risk rankings under the revised proposal, a particular point on the horizontal axis is not likely to represent the same bank for the current system and the proposed rule. Thus, the chart does not show how an individual bank's assessment would change under the revised proposal; it simply compares the distribution of assessment rates under the current system to the distribution under the revised proposal.

⁴⁴ The revised proposal assumes a range of initial assessment rates from 3 basis points to 30 basis points. For purposes of determining assessment rates for the illustration, the FDIC converted the statistical model to a range of assessment rates from 3 basis points to 30 basis points so that, for the third quarter of 2015, aggregate assessments for all established small banks under the revised proposal would have equaled, as closely as reasonably possible, aggregate assessments for all established small banks under the rate schedule in Table 4 (the rates that, under current rules, will automatically go into effect when the reserve ratio reaches 1.15 percent). Initial assessment rates under the rate schedule actually in effect for the fourth quarter of 2014 ranged from 5 basis points to 35 basis points, since the DIF reserve ratio was under 1.15 percent.

Chart 1 – Illustrative, Hypothetical Comparison of Distribution of Assessment Rates
For Established Small Banks (Comparing Actual Third Quarter of 2015 Initial Assessment Rates
for the Current System to the Revised Proposal)



Due in large part to the overall decline in rates once the reserve ratio reaches 1.15 percent, most established small banks (5,729 or 93 percent) would have had lower total assessment rates.⁴⁵ Among Risk Category I established small banks, 92 percent would have had rate decreases; the average decrease for these banks would have been 2.6 basis points. Of the Risk Category II, III, and IV established small banks, 99 percent would have had rate decreases;

⁴⁵ As discussed above, a bank's total assessment rate may vary from the initial assessment rate as the result of possible adjustments. Under the current system, there are three possible adjustments: the unsecured debt adjustment, the DIDA, and the brokered deposit adjustment. Under the revised proposal, the brokered deposit adjustment would be eliminated for established small banks, but the unsecured debt adjustment and the DIDA would remain.

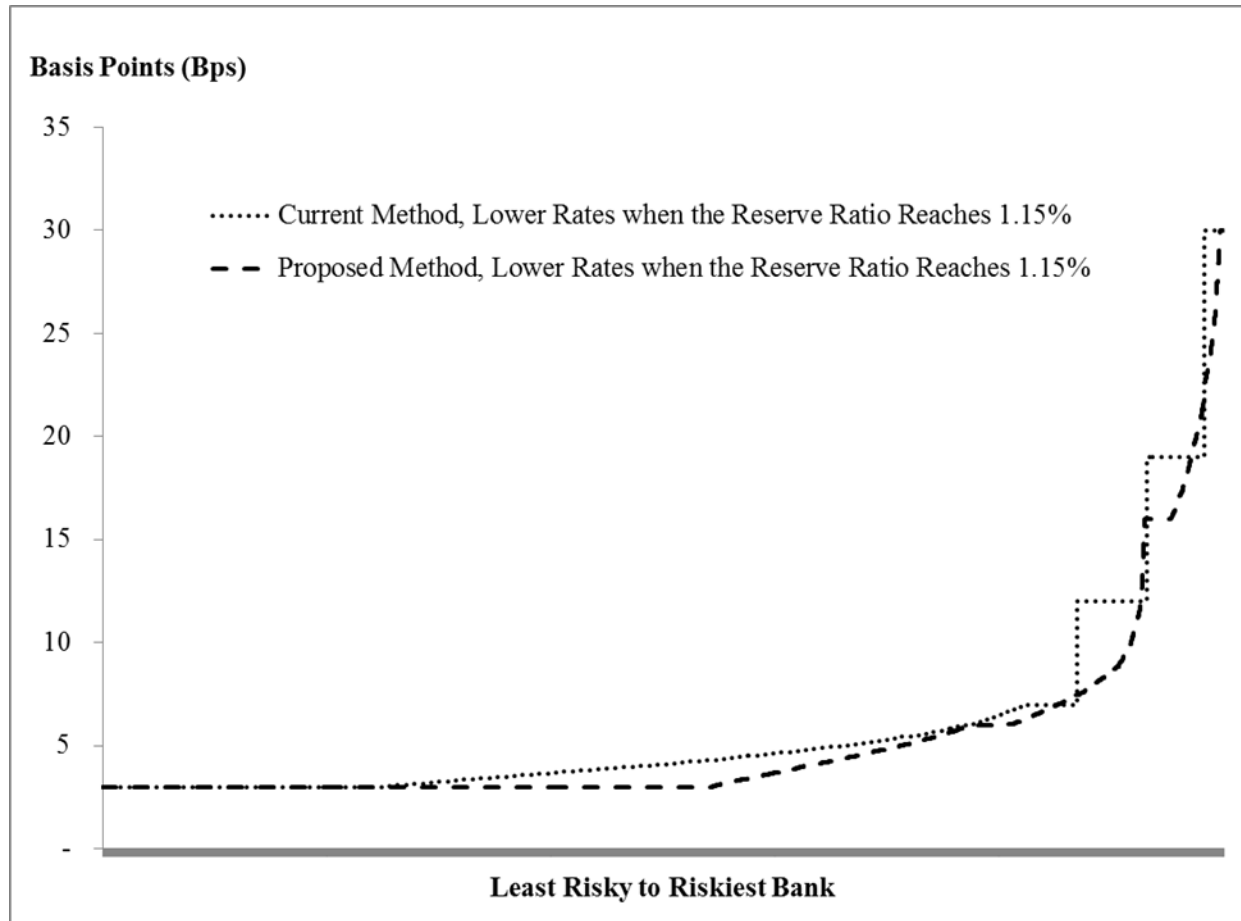
the average decrease would have been 7.0 basis points. A total of 428 established small banks (7 percent of established small banks) would have had rate increases. Of the Risk Category I established small banks, 8 percent would have had rate increases; the average increase would have been 1.6 basis points. Of the Risk Category II, III, and IV established small banks, 1 percent would have had rate increases; the average increase would have been 2.5 basis points. The results of the comparison are similar to those that would have resulted from a comparison of actual assessment rates to those proposed in the 2015 NPR.

To further illustrate the effects of the revised proposal on small bank assessment rates, the FDIC compared hypothetical assessment rates under the revised proposal with the assessment rates established small banks would have been charged for the third quarter of 2015 under the current system if the assessment rate schedule that will go into effect when the reserve ratio reaches 1.15 percent had been in effect. The proportion of established small banks paying the minimum initial assessment rate would also have increased from 26 percent to 56 percent under the revised proposal and the proportion of established small banks paying the maximum initial assessment rate would also have decreased from 0.5 percent of established small banks to 0.1 percent of established small banks under the revised proposal. Chart 2 below graphically compares the distribution of established small bank initial assessment rates under this illustration.

Chart 2 – Illustrative, Hypothetical Comparison of Distribution of Assessment Rates

For Established Small Banks Based on the Third Quarter of 2015

(Comparing Table 4 Initial Assessment Rates for the Current System to the Revised Proposal)



Most established small banks (3,467 or 56 percent) would have had lower total assessment rates. Among Risk Category I established small banks, 52 percent would have had rate decreases; the average decrease for these banks would have been 1.3 basis points. Of the Risk Category II, III, and IV established small banks, 94 percent would have had rate decreases; the average decrease would have been 4.6 basis points. 1,282 established small banks (21 percent of established small banks) would have had rate increases. Of the Risk Category I established small banks, 23 percent would have had rate increases; the average increase would

have been 1.8 basis points. Of the Risk Category II, III, and IV established small banks, 5 percent would have had rate increases; the average increase would have been 2.4 basis points. Again, the results of the comparison are similar to those that would have resulted from a comparison of assessment rates that, under current rules, would have gone into effect when the reserve ratio reaches 1.15 percent with those proposed in the 2015 NPR.

Effect on Capital and Earnings

Appendix 2 to the Supplementary Information section of this notice discusses the effect of the revised proposal on the capital and earnings of established small banks in detail. Using balance sheet and trailing twelve month income data as of the third quarter 2015, Appendix 2 analyzes the effects of the revised proposal on capital and income in two ways: (1) the effect of the revised proposal compared to the current small bank deposit insurance assessment system under the rate schedule in Table 3 (with an initial assessment rate range of 5 basis points to 35 basis points) (the first comparison); and (2) the effect of the revised proposal compared to the current small bank deposit insurance assessment system under the rate schedule in Table 4 (with an initial assessment rate range of 3 basis points to 30 basis points; this rate schedule is to go into effect the quarter after the DIF reserve ratio reaches 1.15 percent) (the second comparison).

Under either comparison, the revised proposal would cause no small bank to fall below a 4 percent or 2 percent leverage ratio if the bank would otherwise be above these thresholds. Similarly, the revised proposal would cause no small bank to rise above a 4 percent or 2 percent leverage ratio if the bank would otherwise be below these thresholds.

In the first comparison, only approximately 7 percent of profitable established small banks and approximately 4 percent of unprofitable small banks would face a rate increase. All

but a very few (16) of these banks would have resulting declines in income (or increases in losses, where the bank is unprofitable) of 5 percent or less. As discussed above, assessment rates for approximately 93 percent of established small banks would decline, resulting in increases in income (or decreases in losses), some of which would be substantial. The effect on earnings of established small banks under the revised proposal in this comparison does not differ materially from the corresponding effect in the 2015 NPR.

In the second comparison, approximately 21 percent of profitable established small banks and approximately 15 percent of unprofitable established small banks would face a rate increase. All but 80 of these banks would have resulting declines in income (or increases in losses, where the bank is unprofitable) of 5 percent or less. As discussed above, assessment rates for approximately 56 percent of established small banks would decline, resulting in increases in income (or decreases in losses), some of which would be substantial. The effect on earnings of established small banks under the revised proposal in this comparison does not differ materially from the corresponding effect in the 2015 NPR.

In sum, because the proposed revisions are intended to generate the same total revenue from small banks as would have been generated absent the revised proposal, the revisions should, overall, have no material effect on the capital and earnings of the banking industry, although the revisions will affect the earnings and capital of individual institutions.

IV. Backtesting

To evaluate the proposed revisions to the risk-based deposit insurance assessment system for small banks, the FDIC tested how well the revised system would have differentiated between

banks that failed and those that did not during the recent crisis compared to the current small bank deposit insurance assessment system.

Table 11 compares accuracy ratios for the assessment system in the proposed system and the current system. An accuracy ratio compares how well each approach would have discriminated between banks that failed within the projection period and those that did not. The projection period in each case is the three years following the date of the projection (the first column), which is the last day of the year given. Thus, for example, the accuracy ratios for 2006 reflect how well each approach would have discriminated in its projection between banks that failed and those that did not from 2007 through 2009.⁴⁶ A “perfect” projection would receive an accuracy ratio of 1; a random projection would receive an accuracy ratio of 0.⁴⁷

⁴⁶ The current small bank deposit insurance assessment system did not exist at the end of 2006 and existed in somewhat different forms in years before 2011. The comparison assumes that the small bank deposit insurance assessment system in its current form existed in each year of the comparison.

⁴⁷ A “perfect” projection is defined as one where the projection rates every bank that fails over the projection period as more risky than every bank that does not fail. A random projection is one where the projection does no better than chance; that is, any given percentage of banks with projected higher risk will include the same percentage of banks that fail over the projection period. Thus, for example, in a random projection, the 10 percent of banks that receive the highest risk projections will include 10 percent of the banks that fail over the projection period; the 20 percent of banks that receive the highest risk projections will include 20 percent of the banks that fail over the projection period, and so on.

Table 11 – Accuracy Ratio Comparison between the Revised Proposal and the Current Small Bank Deposit Insurance Assessment System

	(A)	(B)	
Year of Projection	Accuracy Ratio for the Revised Proposal*	Accuracy Ratio for the Current Small Bank Assessment System	Accuracy Ratio for the Revised Proposal - Accuracy Ratio for the Current System (A - B)
2006	0.6988	0.3491	0.3498
2007	0.7760	0.5616	0.2144
2008	0.9015	0.7825	0.1190
2009	0.9360	0.9015	0.0345
2010	0.9667	0.9394	0.0272
2011	0.9548	0.9323	0.0225

* The accuracy ratio for the revised proposal is based on the conversion of the statistical model as estimated based on bank data through 2011 and failure data through 2014.

The table contains results that do not differ materially from the comparison of the assessment system proposed in the 2015 NPR and the current small bank deposit insurance assessment system. In each comparison, the table reveals that, while the current system did relatively well at capturing risk and predicting failures in more recent years, the proposed system would have not only done significantly better immediately before the recent crisis and at the beginning of the crisis, but also better overall.⁴⁸ In the early part of the crisis, when CAMELS

⁴⁸ As implied in the footnote to Table 11, the accuracy ratios in the table for the proposed system are based on in-sample backtesting. In-sample backtesting compares model forecasts to actual outcomes where those outcomes are included in the data used in model development. Out-of-sample backtesting is the comparison of model predictions against outcomes where those outcomes are not used as part of the model development used to generate predictions. Out-of-sample backtesting, discussed in Appendix 1 of the Supplementary Information section of this notice, also shows that, while the current assessment system for small banks did relatively well at predicting failures in more recent years, the proposed system would have done significantly better immediately before the recent crisis and at the beginning of the crisis, but also better overall.

ratings had not fully reflected the worsening condition of many banks, the proposed system would have recognized risk far better than the current system, primarily because the rates under the proposed system are not constrained by risk categories. As the crisis progressed and CAMELS ratings more fully reflected crisis conditions, the superiority of the proposed system decreased, but it still performed better than the current system.

Appendix 1 to the Supplementary Information section of this notice contains a more detailed description of the FDIC's backtests of the revised proposal.

V. Alternatives Considered

In the 2015 NPR, the FDIC solicited comments on the following alternatives: different minimum and maximum assessment rates based on CAMELS composite ratings, including higher, lower, or no minimum or maximum initial assessment rates for banks with certain CAMELS ratings; the inclusion of loss given default (LGD) in the new statistical model; and no changes to the small bank deposit insurance assessment system. The discussion of these alternatives is found in the 2015 NPR.⁴⁹

VI. Request for Comments

The FDIC seeks comment on every aspect of this proposed rulemaking, particularly revisions made to the 2015 NPR, including the brokered deposit ratio and one-year asset growth measure.

The FDIC received comments on parts of the proposal in the 2015 NPR that have not changed in this revised NPR. The FDIC will consider all comments submitted in response to the

⁴⁹ 80 FR 40838, 40851 – 40854.

2015 NPR, as well as comments submitted in response to this revised NPR, in developing a final rule. Thus, to reduce burden, those who submitted a comment on the 2015 NPR need not resubmit the comment for it to be considered by the FDIC in developing the final rule. However, comments on any aspect of the revised NPR are welcome.

VII. Regulatory Analysis and Procedure

A. Regulatory Flexibility Act

The FDIC has carefully considered the potential impacts on all banking organizations, including community banking organizations, and has sought to minimize the potential burden of these changes where consistent with applicable law and the agencies' goals.

The Regulatory Flexibility Act (RFA) requires that each federal agency either certify that a proposed rule would not, if adopted in final form, have a significant economic impact on a substantial number of small entities or prepare an initial regulatory flexibility analysis of the proposal and publish the analysis for comment.⁵⁰ Certain types of rules, such as rules of particular applicability relating to rates or corporate or financial structures, or practices relating to such rates or structures, are expressly excluded from the definition of "rule" for purposes of the RFA.⁵¹ The proposed rule relates directly to the rates imposed on insured depository institutions for deposit insurance and to the deposit insurance assessment system that measures risk and determines each established small bank's assessment rate. Nonetheless, the FDIC is voluntarily undertaking an initial regulatory flexibility analysis of the revised proposal and seeking comment on it.

⁵⁰ See 5 U.S.C. 603, 604 and 605.

⁵¹ 5 U.S.C. 601.

As of September 30, 2015, of the 6,270 insured commercial banks and savings institutions, there were 5,015 small insured depository institutions as that term is defined for purposes of the RFA (i.e., those with \$550 million or less in assets).⁵²

For purposes of this analysis, whether the FDIC were to collect needed assessments under the existing rule or under the proposed rule, the total amount of assessments collected would be the same. The FDIC's total assessment needs are driven by the FDIC's aggregate projected and actual insurance losses, expenses, investment income, and insured deposit growth, among other factors, and assessment rates are set pursuant to the FDIC's long-term fund management plan. This analysis demonstrates how the new pricing system under the proposed range of initial assessment rates of 3 basis points to 30 basis points (P330) could affect small entities relative to the current assessment rate schedule (C535) and relative to the rate schedule that under current regulations will be in effect when the reserve ratio exceeds 1.15 percent (C330).⁵³ Using data as of September 30, 2015, the FDIC calculated the total assessments that would be collected under both rate schedules and under the proposed rule.

The economic impact of the revised proposal on each small institution for RFA purposes (i.e., institutions with assets of \$550 million or less) was then calculated as the difference in annual assessments under the proposed rule compared to the existing rule as a percentage of the

⁵² Throughout this RFA analysis (unlike the rest of this revised NPR), a "small institution" refers to an institution with assets of \$550 million or less; a "small bank," however, continues to refer to a small insured depository institution for purposes of deposit insurance assessments (generally, a bank with less than \$10 billion in assets).

⁵³ The analysis is based on total assessment rates, rather than initial assessment rates. A bank's total assessment rate may vary from its initial assessment rate as the result of possible adjustments. Under the current system, there are three possible adjustments: the unsecured debt adjustment, the DIDA, and the brokered deposit adjustment. Under revised proposal, the brokered deposit adjustment would be eliminated for established small banks, but the unsecured debt adjustment and the DIDA would remain.

institution's annual revenue and annual profits, assuming the same total assessments collected by the FDIC from the banking industry.⁵⁴

Projected Effects on Small Entities Assuming No Change in Initial Assessment Rate Range (P330-C330)

Based on the September 30, 2015 data, of the total of 5,015 small institutions, no institution would have experienced an increase in assessments equal to five percent or more of its total revenue. These figures do not reflect a significant economic impact on revenues for a substantial number of small insured institutions. Table 12 below sets forth the results of the analysis in more detail.

Table 12 – Percent Change in Assessments Resulting from the Revised Proposal
(Assuming No Change in the Assessment Rate Range)

Change in Assessments	Number of Institutions	Percent of Institutions
More than 5 percent lower	0	0
0 to 5 percent lower	2,984	60
0 to 5 percent higher	2,031	40
More than 5 percent higher	0	0
Total	5,015	100

The FDIC performed a similar analysis to determine the impact on profits for small institutions. Based on September 30, 2015 data, of those small institutions with reported profits, 13 institutions would have an increase in assessments equal to 10 percent or more of their profits. Again, these figures do not reflect a significant economic impact on profits for a substantial

⁵⁴ For purposes of the analysis, an institution's total revenue is defined as the sum of its interest income and noninterest income and an institution's profit is defined as income before taxes and extraordinary items.

number of small insured institutions. Table 13 sets forth the results of the analysis in more detail.

Table 13* – Assessment Changes Relative to Profits for Profitable Small Institutions under the Revised Proposal (Assuming No Change in the Initial Assessment Rate Range)

Change in Assessments Relative to Profits	Number of Institutions	Percent of Institutions
Decrease in assessments equal to more than 40 percent of profits	56	1
Decrease in assessments equal to 20 to 40 percent of profits	48	1
Decrease in assessments equal to 10 to 20 percent of profits	111	2
Decrease in assessments equal to 5 to 10 percent of profits	269	6
Decrease in assessments equal to 0 to 5 percent of profits	3,429	73
Increase in assessments equal to 0 to 5 percent of profits	741	16
Increase in assessments equal to 5 to 10 percent of profits	34	1
Increase in assessments equal to 10 to 20 percent of profits	8	0
Increase in assessments equal to 20 to 40 percent of profits	2	0
Increase in assessments equal to more than 40 percent of profits	3	0
Total	4,701	100**

*Institutions with negative or no profit were excluded. These institutions are shown in Table 14.

**Figures may not add to totals due to rounding.

Table 13 excludes small institutions that either show no profit or show a loss, because a percentage cannot be calculated. The FDIC analyzed the effect of the revised proposal on these institutions by determining the annual assessment change (either an increase or a decrease) that would result. Table 14 below shows that 23 (seven percent) of the 314 small insured institutions

with negative or no reported profits would have an increase of \$20,000 or more in their annual assessments.

Table 14 – Change in Assessments for Unprofitable Small Institutions Resulting from the Revised Proposal (Assuming No Change in the Initial Assessment Rate Range)

Change in Assessments	Number of Institutions	Percent of Institutions
\$20,000 or more decrease	136	43
\$10,000 - \$20,000 decrease	56	18
\$5,000 - \$10,000 decrease	32	10
\$1,000 - \$5,000 decrease	30	10
\$0 - \$1,000 decrease	14	4
\$0 - \$1,000 increase	6	2
\$1,000 - \$5,000 increase	7	2
\$5,000 - \$10,000 increase	4	1
\$10,000 - \$20,000 increase	6	2
\$20,000 increase or more	23	7
Total	314	100*

*Figures may not add to totals due to rounding.

Projected Effects on Small Entities Assuming Change in the Initial Assessment Rate Range from 5-35 Bps to 3-30 Bps (P330-C535)

Based on the September 30, 2015 data, of the total of 5,015 small institutions, no institution would have experienced an increase in assessments equal to five percent or more of its total revenue. These figures do not reflect a significant economic impact on revenues for a substantial number of small insured institutions. Table 15 below sets forth the results of the analysis in more detail.

Table 15 – Percent Change in Assessments Resulting from the Revised Proposal

(Assuming Change in the Initial Assessment Rate Range from 5 – 35 Bps to 3 – 30 Bps)

Change in Assessments	Number of Institutions	Percent of Institutions
More than 5 percent lower	1	0
0 to 5 percent lower	4,758	95
0 to 5 percent higher	256	5
More than 5 percent higher	0	0
Total	5,015	100

The FDIC performed a similar analysis to determine the impact on profits for small institutions. Based on September 30, 2015 data, of those small institutions with reported profits, 3 institutions would have an increase in assessments equal to 10 percent or more of their profits. Again, these figures do not reflect a significant economic impact on profits for a substantial number of small insured institutions. Table 16 sets forth the results of the analysis in more detail.

Table 16* – Assessment Changes Relative to Profits for Profitable Small Institutions under the Revised Proposal (Assuming Change in the Initial Assessment Rate Range from 5 – 35 Bps to 3 – 30 Bps)

Change in Assessments Relative to Profits	Number of Institutions	Percent of Institutions
Decrease in assessments equal to more than 40 percent of profits	91	2
Decrease in assessments equal to 20 to 40 percent of profits	98	2
Decrease in assessments equal to 10 to 20 percent of profits	268	6
Decrease in assessments equal to 5 to 10 percent of profits	492	10
Decrease in assessments equal to 0 to 5 percent of profits	3,510	75
Increase in assessments equal to 0 to 5 percent of profits	235	5
Increase in assessments equal to 5 to 10 percent of profits	4	0
Increase in assessments equal to 10 to 20 percent of profits	1	0
Increase in assessments equal to 20 to 40 percent of profits	1	0
Increase in assessments equal to more than 40 percent of profits	1	0
Total	4,701	100

* Institutions with negative or no profit were excluded. These institutions are shown in Table 17.

**Figures may not add to totals due to rounding.

Table 16 excludes small institutions that either show no profit or show a loss, because a percentage cannot be calculated. The FDIC analyzed the effect of the revised proposal on these institutions by determining the annual assessment change (either an increase or a decrease) that would result. Table 17 below shows that just 6 (2 percent) of the 314 small insured institutions with negative or no reported profits would have an increase of \$20,000 or more in their annual assessments. Again, these figures do not reflect a significant economic impact on profits for a substantial number of small insured institutions.

Table 17 – Change in Assessments for Unprofitable Small Institutions Resulting from the Revised Proposal (Assuming Assessment Change in the Initial Assessment Rate Range from 5 – 35 Bps to 3 – 30 Bps)

Change in Assessments	Number of Institutions	Percent of Institutions
\$20,000 or more decrease	208	66
\$10,000 - \$20,000 decrease	52	17
\$5,000 - \$10,000 decrease	28	9
\$1,000 - \$5,000 decrease	11	4
\$0 - \$1,000 decrease	4	1
\$0 - \$1,000 increase	1	0
\$1,000 - \$5,000 increase	0	0
\$5,000 - \$10,000 increase	2	1
\$10,000 - \$20,000 increase	2	1
\$20,000 increase or more	6	2
Total	314	100*

*Figures may not add to totals due to rounding.

The proposed rule does not directly impose any “reporting” or “recordkeeping” requirements within the meaning of the Paperwork Reduction Act. The compliance requirements for the proposed rule would not exceed (and, in fact, would be the same as) existing compliance requirements for the current risk-based deposit insurance assessment system for small banks. The FDIC is unaware of any duplicative, overlapping or conflicting federal rules.

The initial RFA analysis set forth above demonstrates that, if adopted in final form, the proposed rule would not have a significant economic impact on a substantial number of small institutions within the meaning of those terms as used in the RFA.⁵⁵

⁵⁵ 5 U.S.C. 605.

Commenters are invited to provide the FDIC with any information they may have about the likely quantitative effects of the revised proposal on small insured depository institutions (those with \$550 million or less in assets).

B. Riegle Community Development and Regulatory Improvement Act:

The Riegle Community Development and Regulatory Improvement Act (RCDRIA) requires that the FDIC, in determining the effective date and administrative compliance requirements of new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations.⁵⁶

This revised NPR proposes no additional reporting or disclosure requirements on insured depository institutions, including small depository institutions, nor on the customers of depository institutions.

C. Paperwork Reduction Act:

The proposed rule does not create any new, or revise any existing collections of information pursuant to the Paperwork Reductions Act (44 U.S.C. 3501 *et seq.*). Therefore, the FDIC will not be submitting any information collection request to the Office of Management and Budget.

⁵⁶ 12 U.S.C. 4802.

D. The Treasury and General Government Appropriations Act, 1999—Assessment of Federal Regulations and Policies on Families

The FDIC has determined that the proposed rule will not affect family well-being within the meaning of section 654 of the Treasury and General Government Appropriations Act, enacted as part of the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 (Public Law 105-277, 112 Stat. 2681).

E. Solicitation of Comments on Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act, Public Law 106-102, 113 Stat. 1338, 1471 (Nov. 12, 1999), requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The FDIC invites your comments on how to make this revised proposal easier to understand. For example:

- Has the FDIC organized the material to suit your needs? If not, how could the material be better organized?
- Are the requirements in the proposed regulation clearly stated? If not, how could the regulation be stated more clearly?
- Does the proposed regulation contain language or jargon that is unclear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand?

Appendix 1
Description of Statistical Model Underlying Proposed Method for Determining Deposit Insurance Assessments For Established Small Insured Depository Institutions

Appendix 1 to the Supplementary Information section of the 2015 NPR provided a technical description of the statistical model⁵⁷ underlying the proposed method for determining deposit insurance assessments for established small banks. It provided background information, reviewed the data and methodology used to estimate the statistical model underlying the proposed method (including a discussion of variable selection, variables used in the model, variables considered but not used in the model, and variables excluded from the model), the estimation model (including a description of the model used to estimate failure probabilities, the time horizon chosen, and in-sample estimation), validation (including a backtest comparison of the proposal to the current small bank assessment system), and references. Appendix 1.1 to the Supplementary Information section of the 2015 NPR discussed the loan mix index and Appendix 1.2 Supplementary Information section of the 2015 NPR listed the variables tested. Appendices 1, 1.1 and 1.2 to the Supplementary Information section of the 2015 NPR are incorporated by reference.⁵⁸

This Appendix 1 to the Supplementary Information section of the revised proposal updates relevant portions of Appendix 1 to the Supplementary Information section of the 2015 NPR to account for the revisions to the definition of the asset growth variable and the introduction of the brokered deposit ratio variable.

I. Variables

⁵⁷ The preamble to the revised NPR refers to the new model as the “statistical model.”

⁵⁸ 80 FR 40838, 40857 – 40873.

Table 1.1 lists and describes the variables that are included in the statistical model (the “new model”) used in the revised proposal.

Table 1.1 – New Model Variable Description

Variables	Description
Tier 1 Leverage Ratio (%)	Tier 1 capital divided by adjusted average assets. (Numerator and denominator are both based on the definition for prompt corrective action.)
Net Income before Taxes/Total Assets (%)	Income (before income taxes and extraordinary items and other adjustments) for the most recent twelve months divided by total assets. ¹
Nonperforming Loans and Leases/Gross Assets (%)	Sum of total loans and lease financing receivables past due 90 or more days and still accruing interest and total nonaccrual loans and lease financing receivables (excluding, in both cases, the maximum amount recoverable from the U.S. Government, its agencies or government-sponsored enterprises, under guarantee or insurance provisions) divided by gross assets. ^{2, 3}
Other Real Estate Owned/Gross Assets (%)	Other real estate owned divided by gross assets. ³
Brokered Deposit Ratio	The ratio of the difference between brokered deposits and 10 percent of total assets to total assets. For institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. ⁴ If the ratio is less than zero, the value is set to zero.
Weighted Average of C, A, M, E, L, and S Component Ratings	The weighted sum of the “C,” “A,” “M,” “E,” “L,” and “S” CAMELS components, with weights of 25 percent each for the “C” and “M” components, 20 percent for the “A” component, and 10 percent each for the “E,” “L,” and “S” components. In instances where the “S” component is missing, the remaining components are scaled by a factor of 10/9. ⁵
Loan Mix Index	A measure of credit risk described below.
Asset Growth (%)	Percentage growth in assets (merger adjusted ⁶) over the previous year in excess of 10 percent. ⁷ If growth is less than 10 percent, the value is set to zero.

¹ For purposes of calculating actual assessment rates (as opposed to model estimation), the ratio of Net Income before Taxes to Total Assets is defined as income (before applicable income taxes and discontinued operations) for the most recent twelve months divided by total assets and is bounded below by (and cannot be less than) -25 percent and is bounded above by (and cannot exceed) 3 percent. In January 2015, the Financial Accounting Standards Board (FASB) eliminated from U.S. generally accepted accounting principles (GAAP) the concept of extraordinary items, effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. In September 2015, the Federal banking agencies published a joint PRA notice and request for comment on proposed changes to the Call Report, including the elimination of the concept of extraordinary items and revision of affected data items. That PRA process is still in progress and the FDIC expects that, at some future time, references to extraordinary items will be removed from the Call Report. Therefore, the FDIC is proposing to define the net income measure for purposes of calculating assessment rates to reflect the anticipated Call Report changes.

² “Gross assets” are total assets plus the allowance for loan and lease financing receivable losses (ALLL); for purposes of estimating the statistical model, for years before 2001, when allocated transfer risk was not included in ALLL in Call Reports, allocated transfer risk was included in gross assets separately.

³ Delinquency and non-accrual data on government guaranteed loans are not available for the entire estimation period. As a result, the model is estimated without deducting delinquent or past-due government guaranteed loans from the nonperforming loans and leases to gross assets ratio.

⁴ For estimation purposes, the numerator does not subtract reciprocal brokered deposits because of a lack of data for most of the estimation period.

⁵ The component rating for sensitivity to market risk (the “S” rating) is not available for years before 1997. As a result, and as described in the table, the model is estimated using a weighted average of five component ratings excluding the “S” component where the component is not available.

⁶ Growth in assets is also adjusted for acquisitions of failed banks.

⁷ For purposes of calculating actual assessment rates (as opposed to model estimation), the maximum value of the Asset Growth measure is 230 percent; that is, asset growth (merger adjusted) over the previous year in excess of 240 percent (230 percentage points in excess of the 10 percent threshold) will not further increase a bank’s assessment rate.

The Tier 1 Leverage Ratio, Net Income before Taxes/Total Assets, Nonperforming Loans and Leases/Gross Assets, Weighted Average of C, A, M, E, L, and S Component Ratings, and Loan Mix Index (“LMI”) are described and discussed in Appendix 1 to the Supplementary Information section of the 2015 NPR.⁵⁹

⁵⁹ 80 FR 40838 at 40858 – 40860.

1. Asset Growth

Among the variables included in the specifications was a one-year asset growth rate. The FDIC also considered a two-year growth rate and lagged one- and two-year growth rates. The one-year growth rates generally had the most explanatory power and additional growth rates did not tend to improve the model's fit. To avoid penalizing normal asset growth, the variable uses only growth in excess of 10 percent. If asset growth is less than 10 percent, the variable is set to zero. This variable has generally the same explanatory power as a variable measuring any positive growth.

Mergers of troubled banks into healthier banks and purchases of failed banks help limit losses to the DIF. Penalizing banks for growth that occurs through the acquisition of troubled or failed banks would create a disincentive for such mergers. Consequently, bank asset growth was adjusted to remove growth resulting from mergers and failed bank acquisitions.

2. Brokered Deposit Ratio

Early test versions of the new model used core deposits as a variable predictive of failure. This variable was statistically significant in-sample across all specifications with a positive correlation with failure. Subsequent versions used brokered deposits as the alternative variable. It provides similar predictive power, and is the variable used for estimating the new model in this revised proposal. Only the portion of brokered deposits above 10 percent of assets is included in the brokered deposit ratio; if the ratio of brokered deposits to assets is less than 10 percent, then the variable is set to zero. For purposes of determining assessments, as opposed to estimation of the new model, reciprocal deposits are excluded from the numerator for banks that are well capitalized and have a CAMELS composite rating of 1 or 2.

II. In-Sample Estimation

The in-sample estimation time period was chosen to be 1985 through 2011, incorporating Call Report data through the end of 2011 and failures through the end of 2014.

To avoid having overlapping three-year look-ahead periods for a given regression, each regression uses data in which only every third year is included. One regression uses insured depository institutions' Call Report and TFR data for the end of 1985 and failures from 1986 through 1988; Call Report and TFR data for the end of 1988 and failures from 1989 through 1991; and so on, ending with Call Report data for the end of 2009 and failures from 2010 through 2012. (See Table 1.2A below.) The second regression uses insured depository institutions' Call Report and TFR data for the end of 1986 and failures from 1987 through 1989, and so on, ending with Call Report data for the end of 2010 and failures from 2011 through 2013. (See Table 1.2B below.) The third regression uses insured depository institutions' Call Report and TFR data for the end of 1987 and failures from 1988 through 1990, and so on, ending with Call Report data for the end of 2011 and failures from 2012 through 2014. (See Table 1.2C below.) Since there is no particular reason for favoring any one of these three regressions over another, the actual model estimates are constructed as an average of each of the three regression estimates for each parameter.

The regressions only include observations for institutions that are at least five years of age, since younger institutions will be subject to a different assessment methodology. Also, since the model will be applied to banks with under \$10 billion in assets, larger banks are not included in the regressions.

The data used for estimation is winsorized (that is, extreme values in the data are reset to reduce the effect of outliers) at the 1st percentile and 99th percentile levels for each year. For

example, if a variable for a bank has a value greater than the 99th percentile value for that year, then the value for that bank is set to the 99th percentile value before estimation is made.

The test statistics applied follow the analysis of Shumway (2001). In Shumway's formulation, the standard test statistics from a logistic regression used to assess statistical significance are divided by the average number of bank-years per bank; this adjustment corrects for the lack of independence between bank-year observations. That is, an adjustment is made to account for a bank no longer being observed after failure. In Tables 1.2A, 1.2B, and 1.2C below, "WaldChiSq2" shows the adjusted χ -square statistic, and "ProbChiSq2" the associated probability value. (The lower the value of ProbChiSq2, the more statistically significant is the parameter estimate. Parameter estimates with a ProbChiSq2 below .05 are considered to be statistically significant at the .05 level.)

As reported in Tables 1.2A, 1.2B, and 1.2C, banks with a higher leverage ratio are less likely to fail within the next three years. Similarly, banks' earnings before taxes and their core deposits to assets ratios are negatively correlated with failure probability. In contrast, nonperforming loans and the other real estate owned to assets ratios are positively correlated with failure probability. Moreover, banks with a higher LMI, faster asset growth, and worse weighted CAMELS component ratings are more likely to fail within the next three years.

The estimated coefficients of the variables are statistically significant at the 5% level for all three regression sets except for the asset growth rate variable. The asset growth rate is statistically significant for two out of the three regressions.

Table 1.2A. – Regression with December 2009 as Last Data Point for Independent Variables

Variable Description	Estimate	WaldChiSq2	ProbChiSq2
Intercept	-5.1717	122.9993	0.000000
Tier 1 Leverage Ratio (%)	-0.3195	72.1987	0.000000
Net Income before Taxes/Assets (%)	-0.1347	10.5889	0.001138
Loan Mix Index	0.0184	68.0000	0.000000
Brokered Deposit Ratio (%)	0.0470	4.8123	0.028257
Nonperforming Assets/Gross Assets (%)	0.2604	54.7635	0.000000
Other Real Estate Owned/Gross Assets (%)	0.1357	9.1723	0.002457
Asset Growth (%)	0.0217	13.0579	0.000302
Weighted Average of C, A, M, E, L and S Component Ratings	0.4604	18.5915	0.000016

Table 1.2B – Regression with December 2010 as Last Data Point for Independent Variables

Variable Description	Estimate	WaldChiSq2	ProbChiSq2
Intercept	-4.9279	113.2177	0.000000
Tier 1 Leverage Ratio (%)	-0.3381	73.0771	0.000000
Net Income before Taxes/Assets (%)	-0.1635	13.8092	0.000202
Loan Mix Index	0.0240	144.1270	0.000000
Brokered Deposit Ratio (%)	0.0840	17.9979	0.000022
Nonperforming Assets/Gross Assets (%)	0.2268	36.6508	0.000000
Other Real Estate Owned/Gross Assets (%)	0.1495	12.5637	0.000393
Asset Growth (%)	0.0081	1.2169	0.269976
Weighted Average of C, A, M, E, L and S Component Ratings	0.2786	6.6049	0.010170

Table 1.2C – Regression with December 2011 as Last Data Point for Independent Variables

Variable Description	Estimate	WaldChiSq2	ProbChiSq2
Intercept	-5.4491	127.5634	0.000000
Tier 1 Leverage Ratio (%)	-0.3073	63.3053	0.000000
Net Income before Taxes/Assets (%)	-0.2518	35.5448	0.000000
Loan Mix Index	0.0195	68.4211	0.000000
Brokered Deposit Ratio (%)	0.0707	20.3491	0.000006
Nonperforming Assets/Gross Assets (%)	0.2318	38.1453	0.000000
Other Real Estate Owned/Gross Assets (%)	0.1215	7.3735	0.006619
Asset Growth (%)	0.0170	6.9063	0.008589
Weighted Average of C, A, M, E, L and S Component Ratings	0.4207	14.4167	0.000146

The parameter estimates applied for the assessments are the average of the estimates from the three regressions above. These average values are show in Table 1.2D.

Table 1.2D – Average of the Parameter Estimates over Three Regressions

Variable Description	Estimate
Intercept	-5.1829
Tier 1 Leverage Ratio (%)	-0.3216
Net Income before Taxes/Assets (%)	-0.1833
Loan Mix Index	0.0206
Brokered Deposit Ratio (%)	0.0672
Nonperforming Assets/Gross Assets (%)	0.2397
Other Real Estate Owned/Gross Assets (%)	0.1356
Asset Growth (%)	0.0156
Weighted Average of C, A, M, E , L and S Component Ratings	0.3866

When the new model is used to determine assessment rates, the variables Asset Growth and Net Income before Taxes / Total Assets are each bounded as follows:

$$\begin{aligned} \text{Asset Growth} &\leq 230 \\ -25 &\leq \text{Net Income before Taxes / Total Assets} \leq 3. \end{aligned}$$

For example, if Asset Growth in excess of the 10 percent threshold is greater than 230 (percent), then it is reset to 230 to determine assessment rates. After the parameters shown in Table 1.2D were obtained, the values of these bounds were determined by performing an iterative series of backtests covering data from 1985 to 2011, with each iteration testing a different combination of bounds; the combination of bounds that resulted in the best rank correlation (Kendall's tau) between probability of failure and actual failure is the combination of bounds selected.

III. Validation

A. *Backtest Comparison of the Established Small Bank Assessment System in the Revised Proposal to the Current Small Bank Deposit Insurance Assessment System*

Using initial base assessment rates,⁶⁰ the FDIC also compared the out-of-sample forecast accuracy of the established small bank assessment system in the revised proposal, which is based on the new model, to the current small bank deposit insurance system's assessment rankings.⁶¹ Comparisons were made for projections as of the end of six different years, 2006 through 2011, and are shown graphically using cumulative accuracy profile (CAP) curves. A CAP curve is illustrated in Figure 1.1. Suppose that banks are ranked on a percentile basis according to a model's predicted probability of failure, with the ranking in descending order. Thus the banks with the highest predicted probability of failure would have a percentile rank near zero, while the banks with the lowest predicted probability of failure would have a percentile rank near 100. In Figure 1.1, the horizontal axis represents this bank percentile rank. The vertical axis represents the cumulative percentage of actual failures. For example, the point marked by "X" indicates that the 30 percent of banks with the highest projected probability of failure included 50 percent of the banks that actually failed. In general, when comparing a CAP curve for alternative models, a model with a higher CAP curve (one with more area underneath it) would be the superior model.

⁶⁰ The current small bank deposit insurance assessment system did not exist at the end of 2006 and existed in somewhat different forms in years before 2011. The comparison assumes that the small bank deposit insurance assessment system in its current form and established small bank assessment system in the revised proposal (assuming a revenue neutral conversion to assessment rates as of the third quarter of 2015) had been in effect in each year of the comparison.

⁶¹ For the out-of-sample backtests, the parameters applied are the average of the parameters from three separate regressions, as in the new model, except with more recent three-year periods omitted. Using Table 1.3 as an example, one regression uses data from the end of 1985 and failures from 1986 through 1988; data for the end of 1988 and failures from 1989 through 1991; and so on, ending with data for the end of 2003 and failures from 2004 through 2006. The second regression uses data from the end of 1987 and failures from 1988 through 1990, and so on, ending with data for the end of 2002 and failures from 2003 through 2005. The third regression uses data from the end of 1986 and failures from 1987 through 1989, and so on, ending with data for the end of 2001 and failures from 2002 through 2004.

Figure 1.1. Cumulative Accuracy Profile (CAP) Illustration

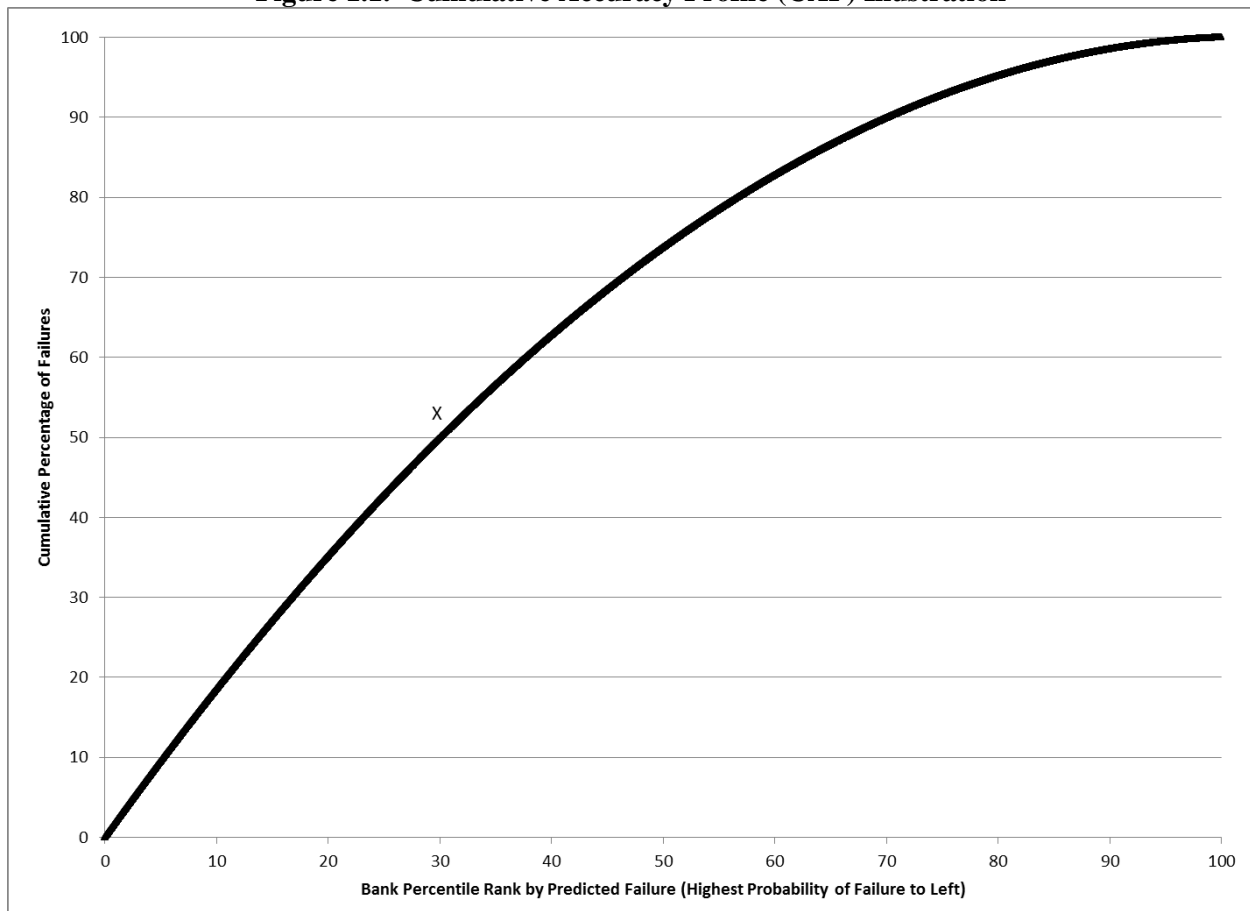
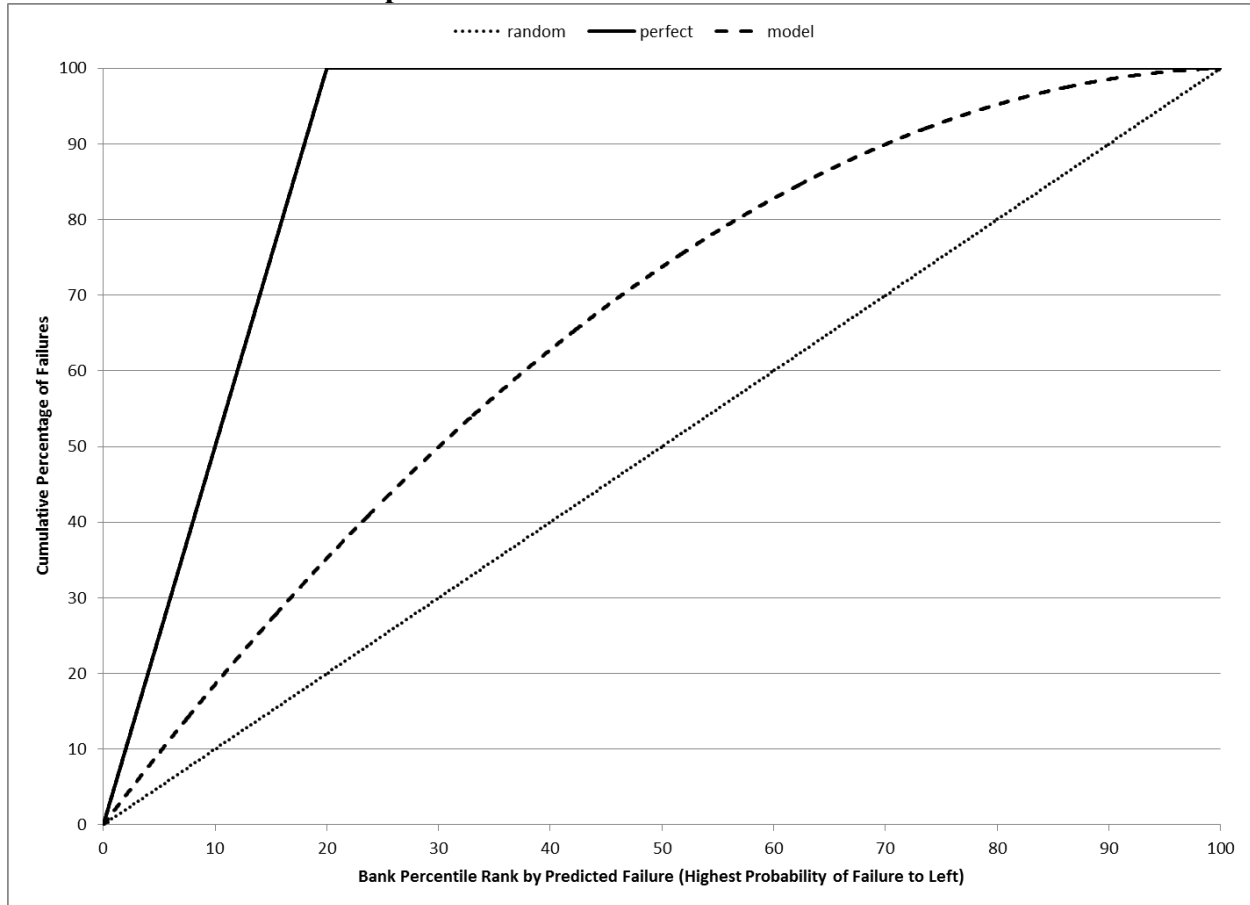


Figure 1.2 shows the CAP curve for a model (dotted line) compared with two limiting CAP curves. The “random” curve (single straight line) shows what the CAP would look like if the model prediction were purely random; for example, the 30 percent of banks with the highest failure projections would include 30 percent of actual failures. At the other extreme, the two solid straight lines show a CAP curve for a model that perfectly differentiates banks that fail from banks that do not in its projections; thus, for example, assuming that 20 percent of all banks actually failed, for the “perfect” model, the 20 percent of banks with the highest projected failure probability would identify 100 percent of failures.⁶²

⁶² The accuracy ratio can be derived from the CAP curve. For the model depicted by the curved line in Figure 1.2, the area between the curved line and the dotted straight line is a measure of the superiority of the model over the

Figure 1.2. Cumulative Accuracy Profile (CAP) Illustration Compared with “Perfect” and Random Cases



To illustrate the application of CAP curves to the assessment system, Figure 1.3 shows a CAP curve for the current small bank deposit insurance system based on its risk ranking (as reflected in assessment rates) as of 2006 and on failures over the next three years (2007 through 2009). The horizontal axis coordinates for four points on this curve, “IV”, “III”, “II”, and “I Max”, corresponding to the percentage of small banks reported in Column (A) in Table 1.3 below, and the vertical axis coordinates for the points correspond to the percentage of failures

random benchmark. The area between the solid line and the dotted straight line is a measure of the superiority of a “perfect” model over the random benchmark. The ratio of these two areas is the accuracy ratio for the model depicted by the curved line. The value is normalized so that it is always less than or equal to 1. An accuracy ratio of 1 occurs in the case of a perfect model, and is 0 in the case of a model that does no better than random guessing. (For the illustrative example in Figure 1.2, the accuracy ratio of the model depicted by the curved line is .396.)

contained within these percentages of small banks, as shown in column (B) in Table 1.3. For example, the point in Figure 1.3 marked “IV” is 0.06 (percentage of small banks in Risk Category IV) on the horizontal axis and 0.65 (percentage of actual failures among small banks in Risk Category IV) on the vertical axis. Similarly, all points to the left of the point marked “III” in Figure 1.3 are Risk Category III and IV rated small banks.

The banks along the horizontal axis corresponding to the horizontal axis coordinates between the points “II” and “I Max” represent Risk Category I small banks that are assessed at the maximum assessment rate for that category. The banks corresponding to the horizontal axis coordinates between the points “I Max” and “I Var” represent Risk Category I small banks that are differentially assessed between the maximum and minimum assessment rates for Risk Category I. (Point “I Var” is not included in Table 1.3.) Banks to the right of the horizontal axis coordinate for the point “I Var” represent Risk Category I small banks that were assessed at the minimum assessment rate.

Table 1.3 – Comparisons of Out-of-Sample Projection of New Model To the Small Bank Deposit Insurance Assessment System’s Rankings for 2006*

	(A)	(B)	(C)
	Percentage of Small Banks in Risk Categories (X Percent)	Percentage of Actual Failures Among the X Percent	Percentage of Actual Failures among Riskiest X Percent of Banks under the Revised Proposal
Risk Category IV	0.06	0.65	0.65
Risk Categories IV and III	0.66	3.23	4.86
Risk Categories IV, III, and II	5.35	14.19	36.77
Risk Categories IV, III, II, and Max. Rate RC I	12.79	34.19	60.00

*New Model Projections use 2003 as Last Year of Estimation Data.

Where a group of banks along the horizontal axis all have the same risk ranking (that is, where they would all pay the same assessment rate), the CAP curve is constructed as if the failures that

occur within this group are uniformly distributed, resulting in a straight line (shown as two parallel lines in CAP curve). Thus, for example, the 26 failures that occurred among the banks on the horizontal axis to the right of “I Var”, which represent the 3,011 Risk Category I small banks that were assessed at the minimum assessment rate as of the end of 2006, are shown as uniformly distributed among this group (that is, as if each successive bank represented 26/3,011 of a failure). This representation results in the straight line between point “I Var” and the point to the extreme upper right of the curve.

Figure 1.3 – Cumulative Accuracy Profile for the Small Bank Deposit Insurance Assessment System Based on Its Risk Rankings for 2006

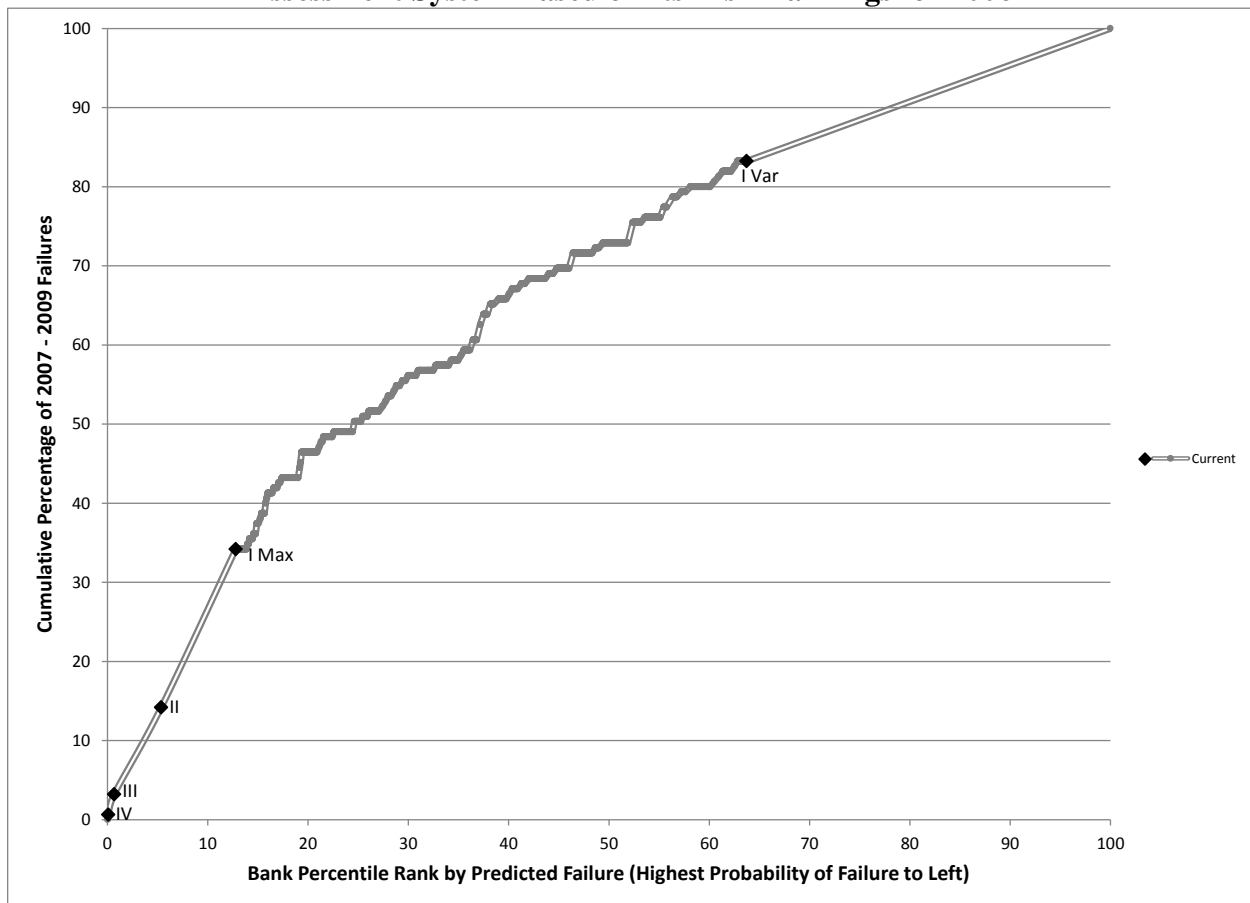


Figure 1.4 shows the same CAP curve as Figure 1.3, but adds a CAP curve based on the revised proposal’s risk ranking (as reflected in assessment rates) as of 2006 and on failures over

the next three years (2007 through 2009).⁶³ Just as Table 1.3 implies, the revised proposal is superior to the current system at almost all points. For example, the revised proposal is obviously superior between the points marked by “III”, “II”, “I Max” and “I Var” and between “I Var” and the upper right of the curve. As discussed earlier, for the current small bank deposit insurance assessment system, banks along the horizontal axis corresponding to the horizontal axis coordinates between the points “I Max” and “I Var” represent Risk Category I small banks that are assessed between the maximum and minimum assessment rates for Risk Category I. The revised proposal is superior in this entire range for 2006.

⁶³ The horizontal axis shows the risk rank order percentile for each model (the current small bank deposit insurance assessment system and established small bank assessment system in the revised proposal), but, because the rankings are different under the two models, as a general rule, the bank that corresponds to any given point along the horizontal axis is likely to be different from one model to the other.

Figure 1.4 – Cumulative Accuracy Profiles of Established Small Bank Assessment System in the Revised Proposal vs. the Small Bank Deposit Insurance Assessment System Based on Their Risk Rankings for 2006

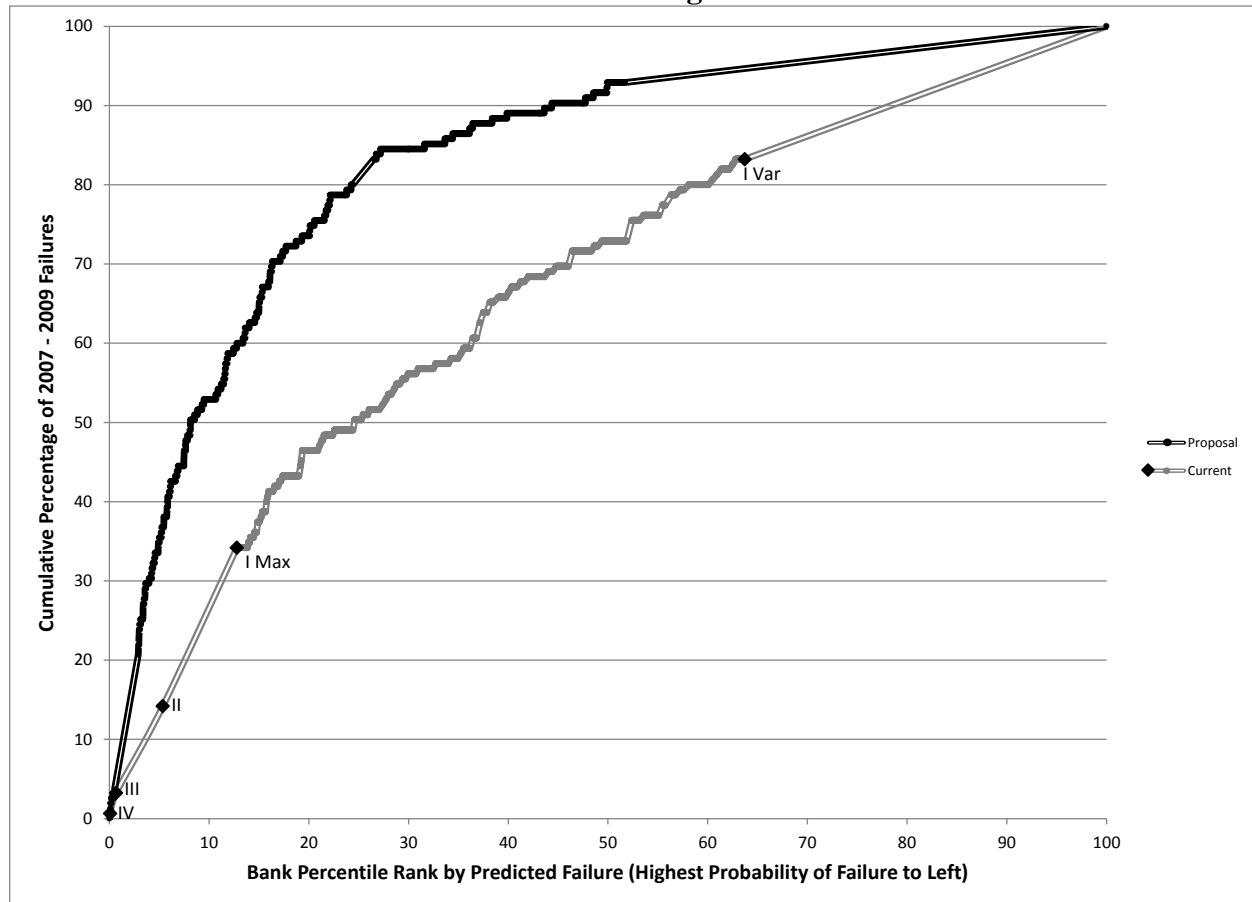


Figure 1.5 shows the same CAP curve based on the revised proposal's projections as of 2007 and on failures over the next three years (2008 through 2010). The revised proposal is superior at all points except "IV" and the points to the left of that point, where the two models yield identical results.

Figure 1.5 – Cumulative Accuracy Profiles of the Established Small Bank Assessment System in the Revised Proposal vs. the Small Bank Deposit Insurance Assessment System Based on Their Risk Rankings for 2007

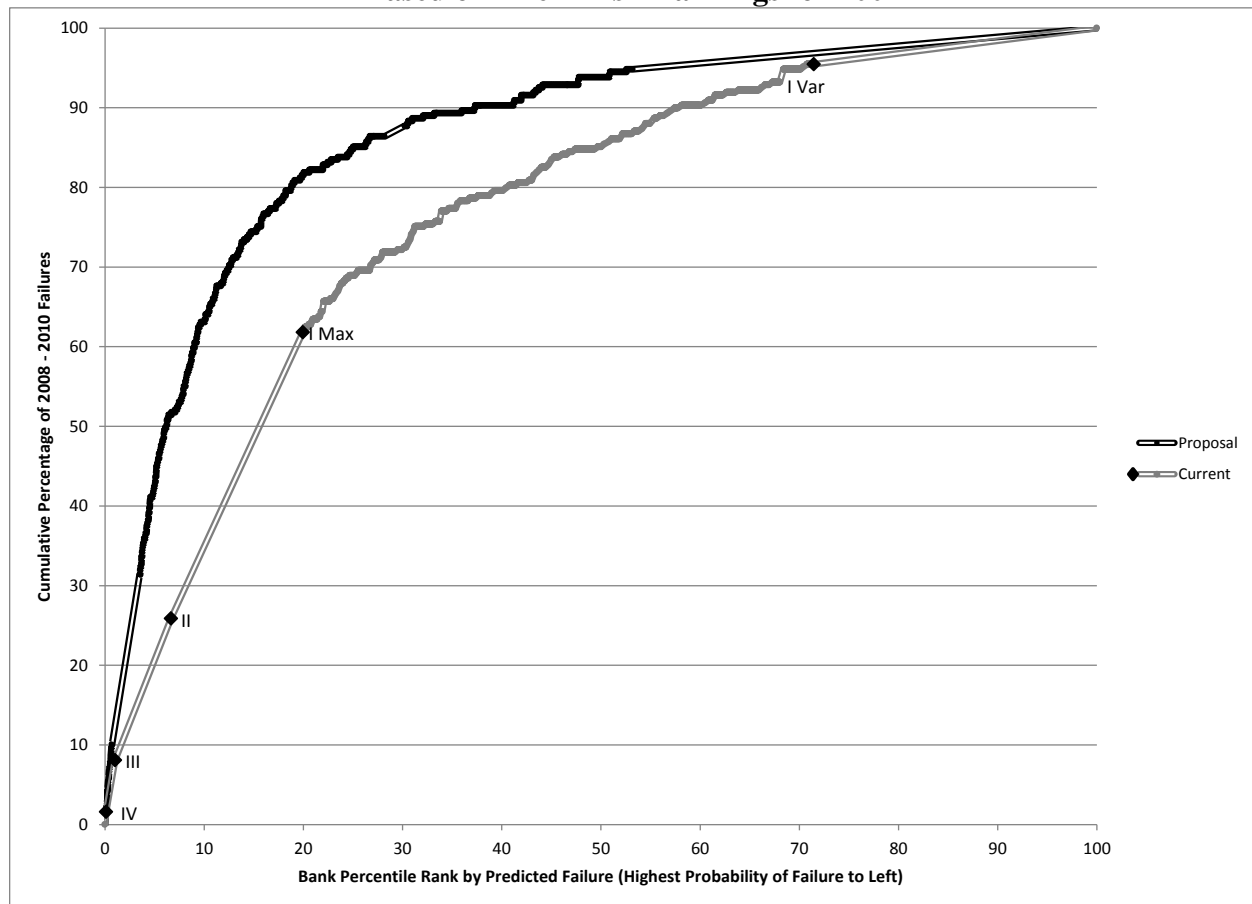


Figure 1.6 shows the same CAP curve based on the revised proposal's projections as of 2008 and on failures over the next three years (2009 through 2011). The revised proposal is superior at most points, except for a few points on the extreme left and extreme right, where the two models are nearly identical.

Figure 1.6 – Cumulative Accuracy Profiles of the Established Small Bank Assessment System in the Revised Proposal vs. the Small Bank Deposit Insurance Assessment System Based on Their Risk Rankings for 2008

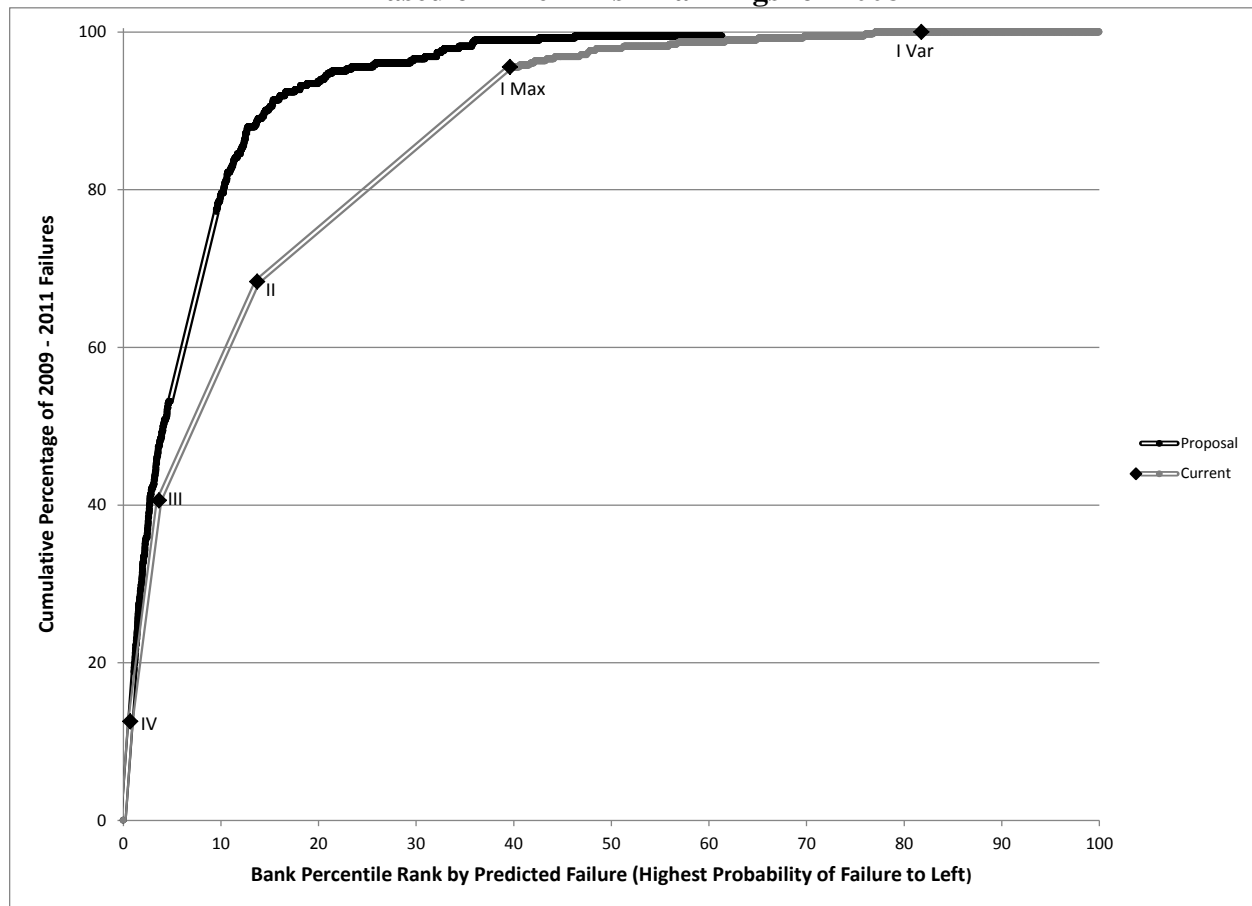


Figure 1.7 shows CAP curves for 2009. (Note that the vertical axis is not zero based.) The revised proposal is superior at most points and approximately equal to the current model at some points (near IV, and at points to the right of the “X”).

Figure 1.7 – Cumulative Accuracy Profiles of the Established Small Bank Assessment System in the Revised Proposal vs. the Small Bank Deposit Insurance Assessment System Based on Their Risk Rankings for 2009

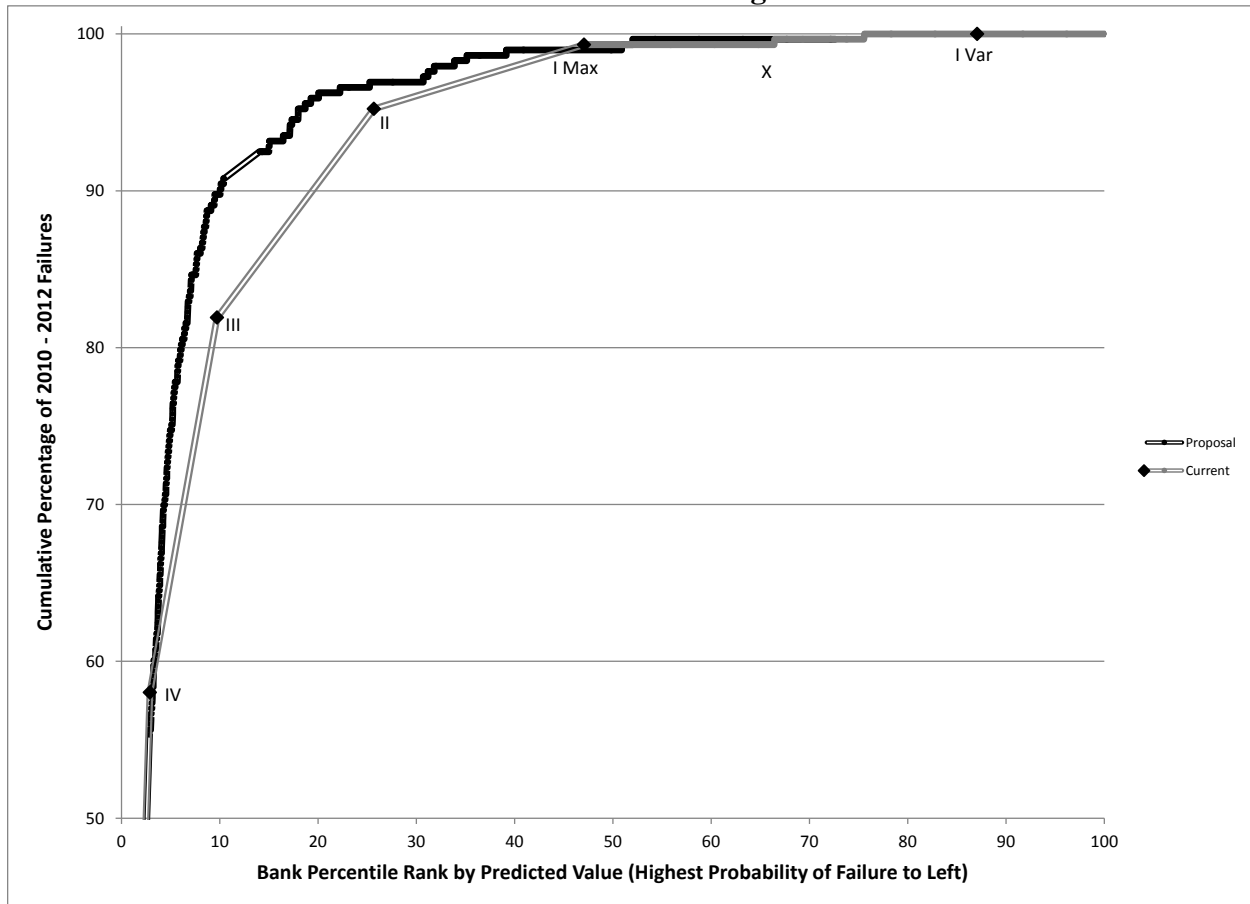
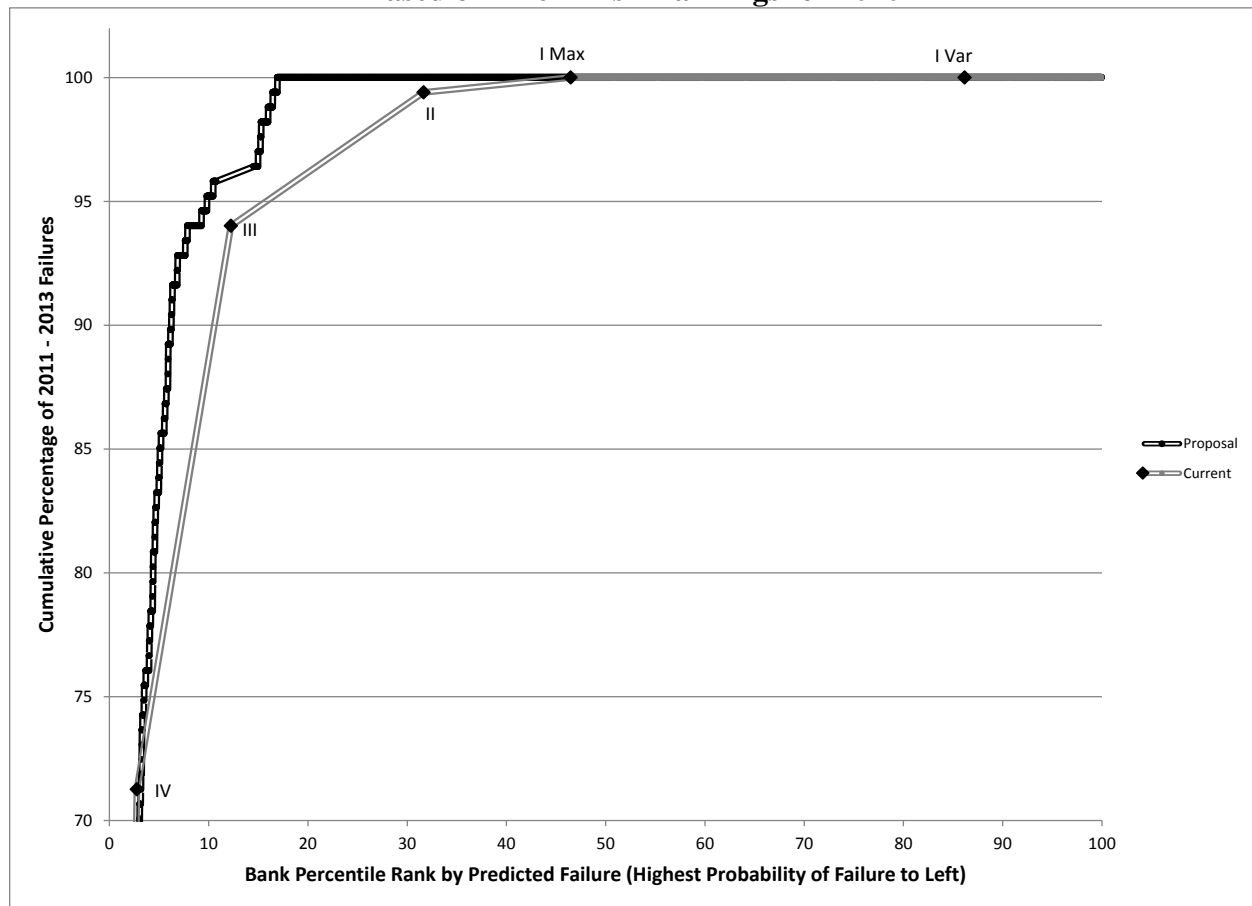


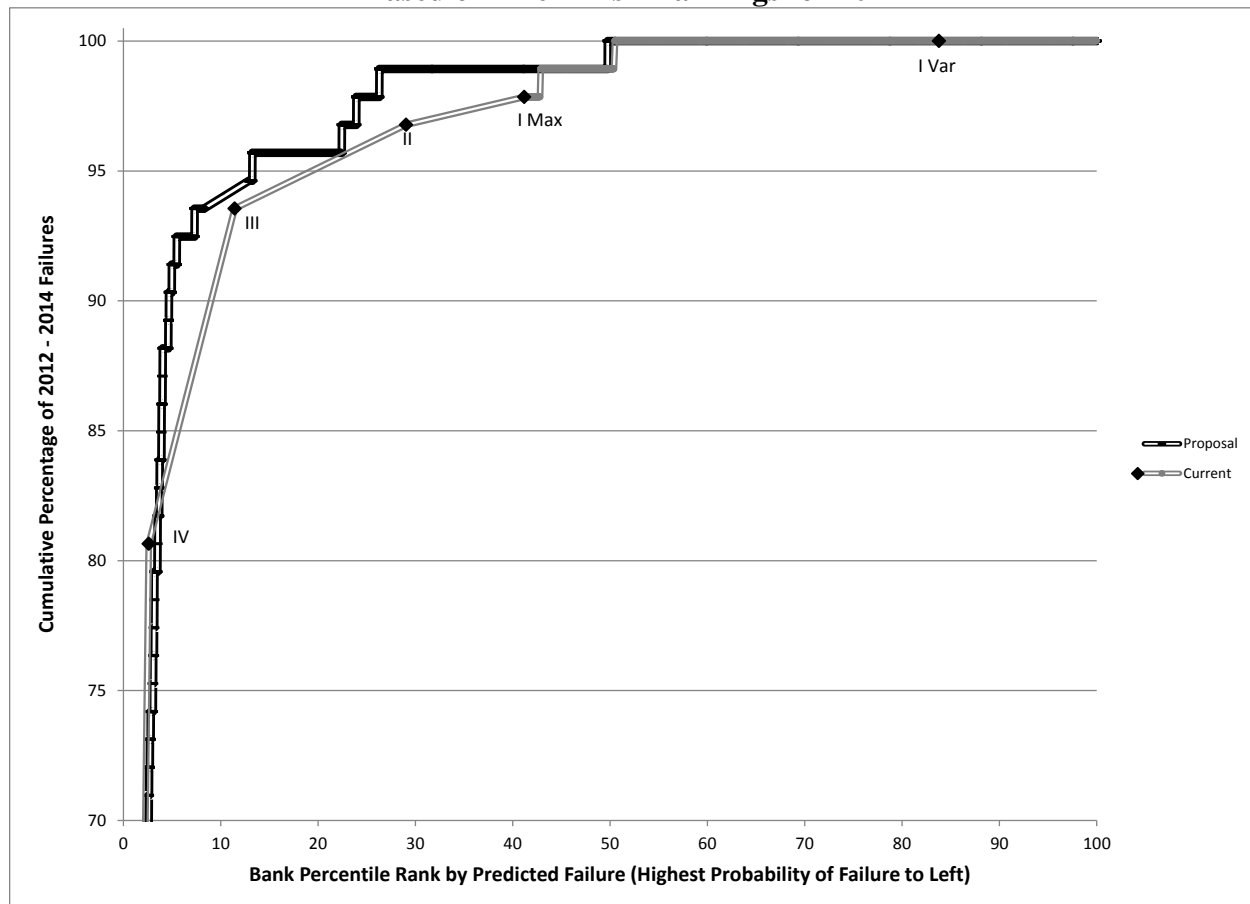
Figure 1.8 shows CAP curves for 2010. When using 2010 data to rank-order small banks based on failure likelihood, the revised proposal performs worse than the current small bank deposit insurance system for the 2.76 percent of worst-rated small banks (the percentage of banks in Risk Category IV). Bank failures after 2010 occurred in the earlier part of the three-year horizon (more failures in 2011 than in 2013). In such instances, the current small bank deposit insurance system, which has a one-year forecast horizon, can perform better than the revised proposal with a longer forecast horizon. However, the revised proposal performs better than or as well as the current model for all points to the right of the intersection of the two curves (near the point marked “IV”).

Figure 1.8 – Cumulative Accuracy Profiles of the Established Small Bank Assessment System in the Revised Proposal vs. the Small Bank Deposit Insurance Assessment System Based on Their Risk Rankings for 2010



Projections from 2011 are shown in Figure 1.9. The current small bank deposit insurance system is slightly superior at point IV. At most other points, the revised proposal is superior or equal to the current model.

Figure 1.9 – Cumulative Accuracy Profiles of the Established Small Bank Assessment System in the Revised Proposal vs. the Small Bank Deposit Insurance Assessment System Based on Their Risk Rankings for 2011



Overall, the accuracy of the established small bank assessment system in the revised proposal is superior to the current small bank deposit insurance system. The superiority of the new model is much stronger for projections from the years 2006, 2007, and 2008 than in the years 2010 and 2011. By 2010, CAMELS ratings largely reflected the weakened condition of many banks. Furthermore, for projections from 2010 and 2011, a large portion of the failures of the subsequent three-year horizon were near term – that is, in the earlier part of the three-year horizon. For projections done from 2006, 2007 and 2008, a larger portion of the actual failures were further out in the three-year horizon. Thus, while CAMELS 4 and 5 ratings can be good

predictors of near-term failures, the additional indicators from the new model contribute more to forecasting accuracy when the failures are further out in time.

Appendix 2

Analysis of the Projected Effects of the Payment of Assessments on the Capital and Earnings of Insured Depository Institutions

I. Introduction

This analysis estimates the effect of the changes in the deposit insurance assessment system and assessment rates in the proposed rule on the equity capital and profitability of banks.⁶⁴ The changes considered in the proposed rule affect only established small banks; they do not affect new banks, large banks or insured branches of foreign banks.

This appendix analyzes how banks' total assessments under the new assessment system using the proposed range of initial base assessment rates of 3 basis points to 30 basis points (P330) could increase or decrease earnings and capital relative to the current initial base assessment rate schedule of 5 basis points to 35 basis points (C535) and relative to the initial base assessment rate schedule of 3 basis points to 30 basis points (C330) that will take effect when the reserve ratio exceeds 1.15 percent under current regulations.⁶⁵ The proposed rule (P330) is intended to maintain approximate revenue neutrality compared to C330. Therefore, for insured established small banks in aggregate, the proposed rule will not affect aggregate earnings and capital compared to C330. Compared to the current system under current assessment rates, however,

⁶⁴ As it is elsewhere in this revised NPR, in this appendix, the term "bank" is synonymous with the term "insured depository institution" and the term "established small bank" is synonymous with the term "established small depository institution" as it is used in 12 CFR part 327. In general, an "established small bank" is one that has less than \$10 billion in assets and that has been federally insured for at least five years as of the last day of any quarter for which it is being assessed.

⁶⁵ A bank's total assessment rate may vary from its initial assessment rate as the result of possible adjustments. Under the current system, there are three possible adjustments: the unsecured debt adjustment, the DIDA, and the brokered deposit adjustment. Under the revised proposal, the brokered deposit adjustment would be eliminated for established small banks, but the unsecured debt adjustment and the DIDA would remain.

banks in the aggregate will have higher earnings and capital under the revised proposal. This analysis focuses on the magnitude of increases or decreases to individual established small banks' earnings and capital resulting from the proposed rule.

II. Assumptions and Data

The analysis assumes that annual pre-tax income for each established small bank is equal to trailing twelve month income as of the third quarter of 2015. The analysis also assumes that the effects of changes in assessments are not transferred to customers in the form of changes in borrowing rates, deposit rates, or service fees. Since deposit insurance assessments are a tax-deductible operating expense, increases in the assessment expense can lower taxable income and decreases in the assessment expense can increase taxable income. Therefore, the analysis considers the effective after-tax cost of assessments in calculating the effect on capital.

The effect of the change in assessments on an established small bank's income is measured by the change in deposit insurance assessments as a percent of income before assessments, taxes, and extraordinary items and other adjustments (hereafter referred to as "income").⁶⁶ This income measure is used in order to eliminate the potentially transitory effects of extraordinary items and taxes on profitability. To facilitate a comparison of the effect of assessment changes, established small banks were assigned to one of two groups: those that were profitable and those that were unprofitable for the twelve months ending September 30, 2015. For this analysis, data as of

⁶⁶ At present, the Call Report combines extraordinary items with two other adjustments: (1) the results of discontinued operations; and (2) the cumulative effect of changes in accounting principles not reported elsewhere in the Call Report. As discussed in a previous footnote, however, in January 2015, the concept of extraordinary items was eliminated from GAAP for fiscal years and interim periods within those fiscal years beginning after December 15, 2015, and extraordinary items will no longer be reported as such in the Call Report. In addition, the cumulative effect of changes in accounting principles will no longer be reported as an adjustment. The results of discontinued operations, however, will continue to be reported as an adjustment. Because the three adjustments cannot be disaggregate in Call Report data, income in the analysis is measured before all three adjustments, even though only one adjustment will apply in the future. In any event, extraordinary items and the cumulative effect of changes in accounting principles are rarely reported and should have little effect on the analysis.

September 30, 2015 are used to calculate each bank's assessment base and risk-based assessment rate. The base and rate are assumed to remain constant throughout the one-year projection period. An established small bank's earnings retention and dividend policies also influence the extent to which assessments affect equity levels. If an established small bank maintains the same *dollar* amount of dividends when it pays a higher deposit insurance assessment under the proposed rule, equity (retained earnings) will be less by the full amount of the after-tax cost of the increase in the assessment. This analysis instead assumes that an established small bank will maintain its dividend *rate* (that is, dividends as a fraction of net income) unchanged from the weighted average rate reported over the four quarters ending September 30, 2015.

III. Projected Effects on Capital and Earnings Assuming a Change in the Initial Assessment Rate Range from 5 Basis Points to 35 Basis Points to 3 Basis Points to 30 Basis Points (Assessment Change P330-C535)

Under this scenario, the FDIC projects that no established small bank facing an increase in assessments would, as a result of the assessment increase, fall below a 4 percent or 2 percent leverage ratio. Furthermore, no established small bank facing a decrease in assessments would, as a result of the decrease, have its leverage ratio rise above a 4 percent or 2 percent leverage ratio.

The FDIC projects that approximately 85 percent of established small banks that were profitable during the 12 months ending September 30, 2015, would have a decrease in assessments in an amount between 0 and 10 percent of income. Table 2.1 shows that another 8 percent of profitable established small banks would have a reduction in assessments exceeding 10 percent of their income. A total of 413 profitable established small banks would have an increase in assessments, with all but 6 of them facing assessment increases between 0 and 10 percent of their income.

Table 2.1 – Effect of the Revised Proposal on Income for Profitable Established Small Banks
(P330 compared to C535)

Change in Assessments Relative to Income	INSTITUTIONS		ASSETS	
	Number	Percent of Total Profitable Established Small Banks	Assets (\$ billions)	Percent of Total Assets of Profitable Established Small Banks
Decrease over 40%	92	2	14	0
Decrease 20% to 40%	106	2	25	1
Decrease 10% to 20%	287	5	71	2
Decrease 5% to 10%	541	9	143	5
Decrease 0% to 5%	4,383	75	2,303	79
No Change	2	0	1	0
Increase 0% to 5%	402	7	349	12
Increase 5% to 10%	5	0	3	0
Increase 10% to 20%	3	0	7	0
Increase 20% to 40%	2	0	1	0
Increase over 40%	1	0	0	0
All	5,824	100	2,916*	100*

* Figures may not add to totals due to rounding.

Table 2.2 provides the same analysis for established small banks that were unprofitable during the 12 months ending September 30, 2015. Table 2.2 shows that 50 percent of unprofitable established small banks would have a decrease in assessments in an amount between 0 and 10 percent of their losses. Another 46 percent would have lower assessments in amounts exceeding 10 percent income. Only 14 unprofitable banks would have assessment increases, all but 4 of them in amounts between 0 and 10 percent of losses.

Table 2.2 – Effect of the Revised Proposal on Income for Unprofitable Established Small Banks
(P330 compared to C535)

Change in Assessment Relative to Losses	INSTITUTIONS		ASSETS	
	Number	Percent of Total Unprofitable Established Small Banks	Assets (\$ billions)	Percent of Total Assets of Unprofitable Established Small Banks
Decrease over 40%	40	12	7	10
Decrease 20% to 40%	47	14	11	15
Decrease 10% to 20%	66	20	14	20
Decrease 5% to 10%	64	19	10	13
Decrease 0% to 5%	102	31	17	23
No Change	1	0	0	0
Increase 0% to 5%	9	3	8	11
Increase 5% to 10%	1	0	5	7
Increase 10% to 20%	2	1	0	1
Increase 20% to 40%	1	0	0	0
Increase over 40%	1	0	0	0
All	334	100	71*	100

* Figures may not add to totals due to rounding.

IV. Projected Effects on Capital and Earnings Assuming Same Initial Assessment Rate Range (P330-C330)

Under this scenario, the FDIC projects that no established small bank facing an increase in assessments would, as a result of the assessment increase, fall below a 4 percent or 2 percent leverage ratio. No established small bank facing a decrease in assessments would, as a result of the assessment decrease, have its leverage ratio rise above the 4 percent or 2 percent threshold.

Table 2.3 shows that 51 percent of established small banks that were profitable during the 12 months ended September 30, 2015, would have a decrease in assessments in an amount between 0 and 10 percent of income. Another 4 percent of profitable established small banks would have a reduction in assessments exceeding 10 percent of their income. A total of 1,238 profitable established small banks would have an increase in assessments, with all but 16 facing assessment increases between 0 and 10 percent of their income.

Table 2.3 – Effect of the Revised Proposal on Income for Profitable Established Small Banks (P330 compared to C330)

Change in Assessments Relative to Income	INSTITUTIONS		ASSETS	
	Number	Percent of Total Profitable Established Small Banks	Assets (\$ billions)	Percent of Total Assets of Profitable Established Small Banks
Decrease over 40%	56	1	7	0
Decrease 20% to 40%	50	1	10	0
Decrease 10% to 20%	121	2	29	1
Decrease 5% to 10%	293	5	81	3
Decrease 0% to 5%	2,669	46	1,148	39
No Change	1,397	24	522	18
Increase 0% to 5%	1,173	20	1,084	37
Increase 5% to 10%	49	1	25	1
Increase 10% to 20%	9	0	2	0
Increase 20% to 40%	4	0	7	0
Increase over 40%	3	0	0	0
All	5,824	100	2,916*	100*

* Figures may not add to totals due to rounding.

Table 2.4 provides the same analysis for established small banks that were unprofitable during the 12 months ending September 30, 2015. Table 2.4 shows that 58 percent of unprofitable

established small banks would have a decrease in assessments in an amount between 0 and 10 percent of their losses. Another 25 percent would have lower assessments in amounts exceeding 10 percent of their losses. Only 51 unprofitable banks would face assessment increases, all but 10 of them in amounts between 0 and 10 percent of losses.

Table 2.4 – Effect of the Revised Proposal on Income for Unprofitable Established Small Banks (P330 compared to C330)

Change in Assessments Relative to Losses	INSTITUTIONS		ASSETS	
	Number	Percent of Total Unprofitable Established Small Banks	Assets (\$ billions)	Percent of Total Assets of Unprofitable Established Small Banks
Decrease over 40%	21	6	5	7
Decrease 20% to 40%	26	8	4	5
Decrease 10% to 20%	37	11	10	14
Decrease 5% to 10%	58	17	10	14
Decrease 0% to 5%	135	40	21	29
No Change	6	2	1	1
Increase 0% to 5%	36	11	13	18
Increase 5% to 10%	5	1	2	2
Increase 10% to 20%	5	1	6	8
Increase 20% to 40%	2	1	1	1
Increase over 40%	3	1	0	1
All	334	100*	71*	100

* Figures may not add to totals due to rounding.

VIII. Revisions to Code of Federal Regulations

List of subjects in 12 CFR part 327.

Bank deposit insurance, Banks, Savings Associations.

For the reasons set forth above, the FDIC proposes to amend part 327 as follows:

PART 327—ASSESSMENTS

1. The authority for 12 CFR part 327 continues to read as follows:

Authority: 12 U.S.C. 1441, 1813, 1815, 1817–19, 1821.

§ 327.3 [Amended]

2. Amend §327.3, in paragraph (b), by removing “§§327.4(a) and 327.9” and adding in its place “§327.4(a) and §327.9 or §327.16”.

§ 327.4 [Amended]

3. Amend §327.4:
 - a. In paragraph (a), by removing “§327.9” and adding in its place “§327.9 or §327.16”.
 - b. In paragraph (c), by removing “§327.9(e)(3)” and adding in its place “§§327.9(e)(3) and 327.16 (f)(3)”.

§ 327.8 [Amended]

4. Amend §327.8:
 - a. In paragraph (e) and (f), by removing “§327.9(e)” and adding in its place “§§327.9(e) and 327.16 (f)”.

b. In paragraph (k)(1), by removing “§327.9(f)(3) and (4)” and adding in its place “§§327.9(f)(3) and (4) and 327.16 (g)(3) and (4)”.

c. By revising paragraph (l).

d. In paragraphs (m), (n), (o), and (p), by removing “§327.9(d)(1)” and adding in its place “§§327.9(d)(1) and 327.16(e)(1)” and removing “§327.9(d)(2)” and adding in its place “§§327.9(d)(2) and 327.16(e)(2).”

e. By adding paragraphs (v) through (y).

The revision and additions read as follows:

§ 327.8 Definitions

* * * * *

(l) *Risk assignment.* Under §327.9, for all small institutions and insured branches of foreign banks, risk assignment includes assignment to Risk Category I, II, III, or IV and, within Risk Category I, assignment to an assessment rate. Under §327.16, for all new small institutions and insured branches of foreign banks, risk assignment includes assignment to Risk Category I, II, III, or IV, and for insured branches of foreign banks within Risk Category I, assignment to an assessment rate or rates. For all established small institutions, large institutions and highly complex institutions, risk assignment includes assignment to an assessment rate.

* * * * *

(v) *Established small institution*—An established small institution is a “small institution” as defined under paragraph (e) of this section that meets the definition of “established depository institution” under paragraph (k) of this section.

(w) *New small institution*—A new small institution is a “small institution” as defined under paragraph (e) of this section that meets the definition of “new depository institution” under paragraph (j) of this section.

(x) *Deposit Insurance Fund and DIF*—the Deposit Insurance Fund established pursuant to 12 U.S.C. 1813(y)(1).

(y) *Reserve ratio of the DIF*—the reserve ratio as defined in 12 U.S.C. 1813(y)(3).

§ 327.9 [Amended]

5. Amend §327.9 by adding introductory text to read as follows:

§ 327.9 Assessment pricing methods

The following pricing methods shall apply through the calendar quarter in which the reserve ratio of the DIF reaches 1.15 percent for the first time after June 30, 2015.

* * * * *

§ 327.10 [Amended]

6. In §327.10, revise paragraphs (b) through (f) to read as follows:

§327.10 Assessment rate schedules

* * * * *

(b) Assessment rate schedules for established small institutions and large and highly complex institutions applicable in the first calendar quarter after June 30, 2015, that the reserve ratio of the DIF reaches or exceeds 1.15 percent for the previous calendar quarter and in all subsequent quarters that the reserve ratio is less than 2 percent.

(1) *Initial base assessment rate schedule for established small institutions and large and highly complex institutions.* In the first calendar quarter after June 30, 2015, that the reserve ratio of the DIF reaches or exceeds 1.15 percent for the previous calendar quarter and for all subsequent quarters where the reserve ratio for the immediately prior assessment period is less than 2 percent, the initial base assessment rate for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be the rate prescribed in the following schedule:

INITIAL BASE ASSESSMENT RATE SCHEDULE BEGINNING THE FIRST QUARTER AFTER JUNE 30, 2015, THAT THE RESERVE RATIO REACHES 1.15 PERCENT AND FOR ALL SUBSEQUENT QUARTERS WHERE THE RESERVE RATIO FOR THE IMMEDIATELY PRIOR ASSESSMENT PERIOD IS LESS THAN 2 PERCENT*

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30

* All amounts for all risk categories are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS Composite 1- and 2-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 3 to 16 basis points.

(ii) *CAMELS Composite 3-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 6 to 30 basis points.

(iii) *CAMELS Composite 4- and 5-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 16 to 30 basis points.

(iv) *Large and Highly Complex Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all large and highly complex institutions shall range from 3 to 30 basis points.

(2) *Total base assessment rate schedule after adjustments.* Once the reserve ratio of the DIF first reaches 1.15 percent, and for all subsequent quarters where the reserve ratio for the immediately prior assessment period is less than 2 percent, the total base assessment rates after adjustments for established small institutions and large and highly complex institutions shall be as prescribed in the following schedule.

TOTAL BASE ASSESSMENT RATE SCHEDULE (AFTER ADJUSTMENTS)* BEGINNING THE FIRST QUARTER AFTER JUNE 30, 2015, THAT THE RESERVE RATIO REACHES 1.15 PERCENT AND FOR ALL SUBSEQUENT QUARTERS WHERE THE RESERVE RATIO FOR THE IMMEDIATELY PRIOR ASSESSMENT PERIOD IS LESS THAN 2 PERCENT**

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	3 to 16	6 to 30	16 to 30	3 to 30
Unsecured Debt Adjustment	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1.5 to 16	3 to 30	11 to 30	1.5 to 40

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS Composite 1- and 2-rated Established Small Institutions Total Base*

Assessment Rate Schedule. The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 1.5 to 16 basis points.

(ii) *CAMELS Composite 3-rated Established Small Institutions Total Base Assessment*

Rate Schedule. The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 3 to 30 basis points.

(iii) *CAMELS Composite 4- and 5-rated Established Small Institutions Total Base*

Assessment Rate Schedule. The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 11 to 30 basis points.

(iv) *Large and Highly Complex Institutions Total Base Assessment Rate Schedule.* The

annual total base assessment rates for all large and highly complex institutions shall range from 1.5 to 40 basis points.

(c) *Assessment rate schedules if the reserve ratio of the DIF for the prior assessment period is equal to or greater than 2 percent and less than 2.5 percent—(1) Initial base assessment rate schedule for established small institutions and large and highly complex institutions.* If the reserve ratio of the DIF for the prior assessment period is equal to or greater than 2 percent and less than 2.5 percent, the initial base assessment rate for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be the rate prescribed in the following schedule:

**INITIAL BASE ASSESSMENT RATE SCHEDULE IF RESERVE RATIO FOR PRIOR ASSESSMENT PERIOD IS
EQUAL TO OR GREATER THAN 2 PERCENT BUT LESS THAN 2.5 PERCENT***

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	2 to 14	5 to 28	14 to 28	2 to 28

*All amounts for all risk categories are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS Composite 1- and 2-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 2 to 14 basis points.

(ii) *CAMELS Composite 3-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 5 to 28 basis points.

(iii) *CAMELS Composite 4- and 5-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 14 to 28 basis points.

(iv) *Large and Highly Complex Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all large and highly complex institutions shall range from 2 to 28 basis points.

(2) *Total Base Assessment Rate Schedule after Adjustments for Established Small Institutions and Large and Highly Complex Institutions.* If the reserve ratio of the DIF for the prior assessment period is equal to or greater than 2 percent and less than 2.5 percent, the total

base assessment rates after adjustments for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be as prescribed in the following schedule.

TOTAL BASE ASSESSMENT RATE SCHEDULE (AFTER ADJUSTMENTS)* IF RESERVE RATIO FOR PRIOR ASSESSMENT PERIOD IS EQUAL TO OR GREATER THAN 2 PERCENT BUT LESS THAN 2.5 PERCENT**

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	2 to 14	5 to 28	14 to 28	2 to 28
Unsecured Debt Adjustment	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	1 to 14	2.5 to 28	9 to 28	1 to 38

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS Composite 1- and 2-rated Established Small Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 1 to 14 basis points.

(ii) *CAMELS Composite 3-rated Established Small Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 2.5 to 28 basis points.

(iii) *CAMELS Composite 4- and 5-rated Established Small Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 9 to 28 basis points.

(iv) *Large and Highly Complex Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all large and highly complex institutions shall range from 1 to 38 basis points.

(d) *Assessment rate schedules if the reserve ratio of the DIF for the prior assessment period is greater than 2.5 percent—(1) Initial Base Assessment Rate Schedule.* If the reserve ratio of the DIF for the prior assessment period is greater than 2.5 percent, the initial base assessment rate for established small institutions and a large and highly complex institutions, except as provided in paragraph (f) of this section, shall be the rate prescribed in the following schedule:

INITIAL BASE ASSESSMENT RATE SCHEDULE IF RESERVE RATIO FOR PRIOR ASSESSMENT PERIOD IS GREATER THAN OR EQUAL TO 2.5 PERCENT*

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	1 to 13	4 to 25	13 to 25	1 to 25

* All amounts for all risk categories are in basis points annually. Initial base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS Composite 1- and 2-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 1 to 13 basis points.

(ii) *CAMELS Composite 3-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 4 to 25 basis points.

(iii) *CAMELS Composite 4- and 5-rated Established Small Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 13 to 25 basis points.

(iv) *Large and Highly Complex Institutions Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all large and highly complex institutions shall range from 1 to 25 basis points.

(2) *Total Base Assessment Rate Schedule after Adjustments.* If the reserve ratio of the DIF for the prior assessment period is greater than 2.5 percent, the total base assessment rates after adjustments for established small institutions and large and highly complex institutions, except as provided in paragraph (f) of this section, shall be the rate prescribed in the following schedule.

TOTAL BASE ASSESSMENT RATE SCHEDULE (AFTER ADJUSTMENTS)* IF RESERVE RATIO FOR PRIOR ASSESSMENT PERIOD IS GREATER THAN OR EQUAL TO 2.5 PERCENT**

	Established Small Institutions			Large & Highly Complex Institutions
	CAMELS Composite			
	1 or 2	3	4 or 5	
Initial Base Assessment Rate	1 to 13	4 to 25	13 to 25	1 to 25
Unsecured Debt Adjustment	-5 to 0	-5 to 0	-5 to 0	-5 to 0
Brokered Deposit Adjustment	N/A	N/A	N/A	0 to 10
Total Base Assessment Rate	.5 to 13	2 to 25	8 to 25	.5 to 35

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(i) *CAMELS Composite 1- and 2-rated Established Small Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 1 or 2 shall range from 0.5 to 13 basis points.

(ii) *CAMELS Composite 3-rated Established Small Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 3 shall range from 2 to 25 basis points.

(iii) *CAMELS Composite 4- and 5-rated Established Small Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all established small institutions with a CAMELS composite rating of 4 or 5 shall range from 8 to 25 basis points.

(iv) *Large and Highly Complex Institutions Total Base Assessment Rate Schedule.* The annual total base assessment rates for all large and highly complex institutions shall range from 0.5 to 35 basis points.

(e) *Assessment Rate Schedules for New Institutions and Insured Branches of Foreign Banks.*

(1) New depository institutions, as defined in 327.8(j), shall be subject to the assessment rate schedules as follows:

(i) *Prior to the reserve ratio of the DIF first reaching 1.15 percent after June 30, 2015.* Prior to the reserve ratio of the DIF reaching 1.15 percent for the first time after June 30, 2015, all new institutions shall be subject to the initial and total base assessment rate schedules provided for in paragraph (a) of this section.

(ii) *Assessment rate schedules for new large and highly complex institutions once the DIF reserve ratio first reaches 1.15 percent after June 30, 2015.* Beginning the first calendar quarter after June 30, 2015 in which the reserve ratio of the DIF reaches or exceeds 1.15 percent in the previous calendar quarter, new large and highly complex institutions shall be subject to the initial

and total base assessment rate schedules provided for in paragraph (b) of this section, even if the reserve ratio equals or exceeds 2 percent or 2.5 percent.

(iii) *Assessment rate schedules for new small institutions beginning the first quarter after June 30, 2015, that the DIF reserve ratio reaches 1.15 percent and for all subsequent quarters.*

(A) *Initial Base Assessment Rate Schedule for New Small Institutions.* Beginning the first calendar quarter after June 30, 2015 in which the reserve ratio of the DIF reaches or exceeds 1.15 percent in the previous calendar quarter, and for all subsequent quarters, the initial base assessment rate for a new small institution shall be the rate prescribed in the following schedule, even if the reserve ratio equals or exceeds 2 percent or 2.5 percent.

**INITIAL BASE ASSESSMENT RATE SCHEDULE BEGINNING THE FIRST QUARTER AFTER JUNE 30, 2015,
THAT THE RESERVE RATIO REACHES 1.15 PERCENT AND FOR ALL SUBSEQUENT QUARTERS**

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	7	12	19	30

* All amounts for all risk categories are in basis points annually.

(1) *Risk Category I Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all new small institutions in Risk Category I shall be 7 basis points.

(2) *Risk Category II, III, and IV Initial Base Assessment Rate Schedule.* The annual initial base assessment rates for all new small institutions in Risk Categories II, III, and IV shall be 12, 19, and 30 basis points, respectively.

(3) All new small institutions in any one risk category, other than Risk Category I, will be charged the same initial base assessment rate, subject to adjustment as appropriate.

(B) *Total Base Assessment Rate Schedule for New Small Institutions.* Beginning the first calendar quarter after June 30, 2015 in which the reserve ratio of the DIF reaches or exceeds 1.15 percent in the previous calendar quarter, and for all subsequent quarters, the total base assessment rates after adjustments for a new small institution shall be the rate prescribed in the following schedule, even if the reserve ratio equals or exceeds 2 percent or 2.5 percent.

TOTAL BASE ASSESSMENT RATE SCHEDULE (AFTER ADJUSTMENTS)* BEGINNING THE FIRST QUARTER AFTER JUNE 30, 2015, THAT THE RESERVE RATIO REACHES 1.15 PERCENT AND FOR ALL SUBSEQUENT QUARTERS **

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	7	12	19	30
Brokered Deposit Adjustment (added)	N/A	0 to 10	0 to 10	0 to 10
Total Assessment Rate	7	12 to 22	19 to 29	30 to 40

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

(1) *Risk Category I Total Assessment Rate Schedule.* The annual total base assessment rates for all new small institutions in Risk Category I shall be 7 basis points.

(2) *Risk Category II Total Assessment Rate Schedule.* The annual total base assessment rates for all new small institutions in Risk Category II shall range from 12 to 22 basis points.

(3) *Risk Category III Total Assessment Rate Schedule.* The annual total base assessment rates for all new small institutions in Risk Category III shall range from 19 to 29 basis points.

(4) *Risk Category IV Total Assessment Rate Schedule.* The annual total base assessment rates for all new small institutions in Risk Category IV shall range from 30 to 40 basis points.

(2) *Insured branches of foreign banks—(i) Assessment rate schedule for insured branches of foreign banks once the reserve ratio of the DIF first reaches 1.15 percent, and the reserve ratio for the immediately prior assessment period is less than 2 percent.* In the first calendar quarter after June 30, 2015, that the reserve ratio of the DIF reaches or exceeds 1.15 percent for the previous calendar quarter and for all subsequent quarters where the reserve ratio for the immediately prior assessment period is less than 2 percent, the initial and total base assessment rates for an insured branch of a foreign bank, except as provided in paragraph (f) of this section, shall be the rate prescribed in the following schedule.

INITIAL AND TOTAL BASE ASSESSMENT RATE SCHEDULE* BEGINNING THE FIRST QUARTER AFTER JUNE 30, 2015, THAT THE RESERVE RATIO REACHES 1.15 PERCENT AND FOR ALL SUBSEQUENT QUARTERS WHERE THE RESERVE RATIO FOR THE IMMEDIATELY PRIOR ASSESSMENT PERIOD IS LESS THAN 2 PERCENT**

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial and Total Assessment Rate	3 to 7	12	19	30

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

(A) *Risk Category I Initial and Total Base Assessment Rate Schedule.* The annual initial and total base assessment rates for an insured branch of a foreign bank in Risk Category I shall range from 3 to 7 basis points.

(B) *Risk Category II, III, and IV Initial and Total Base Assessment Rate Schedule.* The annual initial and total base assessment rates for Risk Categories II, III, and IV shall be 12, 19, and 30 basis points, respectively.

(C) All insured branches of foreign banks in any one risk category, other than Risk Category I, will be charged the same initial base assessment rate, subject to adjustment as appropriate.

(ii) *Assessment rate schedule for insured branches of foreign banks if the reserve ratio of the DIF for the prior assessment period is equal to or greater than 2 percent and less than 2.5 percent.* If the reserve ratio of the DIF for the prior assessment period is equal to or greater than 2 percent and less than 2.5 percent, the initial and total base assessment rates for an insured branch of a foreign bank, except as provided in paragraph (f), shall be the rate prescribed in the following schedule.

INITIAL AND TOTAL BASE ASSESSMENT RATE SCHEDULE* IF RESERVE RATIO FOR PRIOR ASSESSMENT PERIOD IS EQUAL TO OR GREATER THAN 2 PERCENT BUT LESS THAN 2.5 PERCENT**

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial and Total Assessment Rate	2 to 6	10	17	28

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

(A) *Risk Category I Initial and Total Base Assessment Rate Schedule.* The annual initial and total base assessment rates for an insured branch of a foreign bank in Risk Category I shall range from 2 to 6 basis points.

(B) *Risk Category II, III, and IV Initial and Total Base Assessment Rate Schedule.* The annual initial and total base assessment rates for Risk Categories II, III, and IV shall be 10, 17, and 28 basis points, respectively.

(C) All insured branches of foreign banks in any one risk category, other than Risk Category I, will be charged the same initial base assessment rate, subject to adjustment as appropriate.

(iii) *Assessment rate schedule for insured branches of foreign banks if the reserve ratio of the DIF for the prior assessment period is greater than 2.5 percent.* If the reserve ratio of the DIF for the prior assessment period is greater than 2.5 percent, the initial and total base assessment rate for an insured branch of foreign bank, except as provided in paragraph (f) of this section, shall be the rate prescribed in the following schedule:

INITIAL AND TOTAL BASE ASSESSMENT RATE SCHEDULE* IF RESERVE RATIO FOR PRIOR ASSESSMENT PERIOD IS GREATER THAN OR EQUAL TO 2.5 PERCENT**

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Assessment Rate	1 to 5	9	15	25

* The depository institution debt adjustment, which is not included in the table, can increase total base assessment rates above the maximum assessment rates shown in the table.

** All amounts for all risk categories are in basis points annually. Initial and total base rates that are not the minimum or maximum rate will vary between these rates.

(A) *Risk Category I Initial and Total Base Assessment Rate Schedule.* The annual initial and total base assessment rates for an insured branch of a foreign bank in Risk Category I shall range from 1 to 5 basis points.

(B) *Risk Category II, III, and IV Initial and Total Base Assessment Rate Schedule.* The annual initial and total base assessment rates for Risk Categories II, III, and IV shall be 9, 15, and 25 basis points, respectively.

(C) All insured branches of foreign banks in any one risk category, other than Risk Category I, will be charged the same initial base assessment rate, subject to adjustment as appropriate.

(f) *Total Base Assessment Rate Schedule adjustments and procedures—(1) Board Rate Adjustments.* The Board may increase or decrease the total base assessment rate schedule in paragraphs (a) through (e) of this section up to a maximum increase of 2 basis points or a fraction thereof or a maximum decrease of 2 basis points or a fraction thereof (after aggregating increases and decreases), as the Board deems necessary. Any such adjustment shall apply uniformly to each rate in the total base assessment rate schedule. In no case may such rate adjustments result in a total base assessment rate that is mathematically less than zero or in a total base assessment rate schedule that, at any time, is more than 2 basis points above or below the total base assessment schedule for the Deposit Insurance Fund in effect pursuant to paragraph (b) of this section, nor may any one such adjustment constitute an increase or decrease of more than 2 basis points.

(2) *Amount of revenue.* In setting assessment rates, the Board shall take into consideration the following:

- (i) Estimated operating expenses of the Deposit Insurance Fund;
- (ii) Case resolution expenditures and income of the Deposit Insurance Fund;
- (iii) The projected effects of assessments on the capital and earnings of the institutions paying assessments to the Deposit Insurance Fund;
- (iv) The risk factors and other factors taken into account pursuant to 12 U.S.C. 1817(b)(1); and

(v) Any other factors the Board may deem appropriate.

(3) *Adjustment procedure.* Any adjustment adopted by the Board pursuant to this paragraph will be adopted by rulemaking, except that the Corporation may set assessment rates as necessary to manage the reserve ratio, within set parameters not exceeding cumulatively 2 basis points, pursuant to paragraph (f)(1) of this section, without further rulemaking.

(4) *Announcement.* The Board shall announce the assessment schedules and the amount and basis for any adjustment thereto not later than 30 days before the quarterly certified statement invoice date specified in §327.3(b) of this part for the first assessment period for which the adjustment shall be effective. Once set, rates will remain in effect until changed by the Board.

7. Add §327.16 to read as follows:

§327.16 Assessment pricing methods—beginning the first calendar quarter after the calendar quarter in which the reserve ratio of the DIF reaches 1.15 percent

(a) *Established small institutions.* Beginning the first calendar quarter after June 30, 2015 in which the reserve ratio of the DIF reached or exceeded 1.15 percent in the previous calendar

quarter, an established small institution shall have its initial base assessment rate determined by using the financial ratios methods set forth in paragraph (a)(1) of this section.

(1) Under the financial ratios method, each of seven financial ratios and a weighted average of CAMELS component ratings will be multiplied by a corresponding pricing multiplier. The sum of these products will be added to a uniform amount. The resulting sum shall equal the institution's initial base assessment rate; provided, however, that no institution's initial base assessment rate shall be less than the minimum initial base assessment rate in effect for established small institutions with a particular CAMELS composite rating for that quarter nor greater than the maximum initial base assessment rate in effect for established small institutions with a particular CAMELS composite rating for that quarter. An institution's initial base assessment rate, subject to adjustment pursuant to paragraphs (e)(1) and (2) of this section, as appropriate (resulting in the institution's total base assessment rate, which in no case can be lower than 50 percent of the institution's initial base assessment rate), and adjusted for the actual assessment rates set by the Board under §327.10(f), will equal an institution's assessment rate. The seven financial ratios are: Tier 1 Leverage Ratio (%); Net Income before Taxes/Total Assets (%); Nonperforming Loans and Leases/Gross Assets (%); Other Real Estate Owned/Gross Assets (%); Brokered Deposit Ratio (%); One Year Asset Growth (%); and Loan Mix Index. The ratios are defined in Table E.1 of Appendix E to this subpart. The ratios will be determined for an assessment period based upon information contained in an institution's report of condition filed as of the last day of the assessment period as set out in paragraph (a)(2) of this section. The weighted average of CAMELS component ratings is created by multiplying each component by the following percentages and adding the products: Capital adequacy—25%, Asset quality—

20%, Management—25%, Earnings—10%, Liquidity—10%, and Sensitivity to market risk—10%. The following tables set forth the values of the pricing multipliers:

Pricing Multipliers Applicable Beginning the [First Quarter after June 30, 2015 That the Reserve Ratio Reaches 1.15 Percent] and All Subsequent Quarters Where the Reserve Ratio for the Immediately Prior Assessment Period is Less than 2 Percent

Risk measures*	Pricing multipliers**
Tier 1 Leverage ratio	[]
Net Income before Taxes/Total Assets	[]
Nonperforming Loans and Leases/Gross Assets	[]
Other Real Estate Owned/Gross Assets	[]
Brokered Deposit Ratio	[]
One Year Asset Growth	[]
Loan Mix Index	[]
Weighted Average CAMELS Component Rating	[]

*Ratios are expressed as percentages.

**Multipliers are rounded to three decimal places.

Pricing Multipliers Applicable When the Reserve Ratio for the Prior Assessment Period is Equal to or Greater Than 2 Percent But is Less Than 2.5 Percent

Risk measures*	Pricing multipliers**
Tier 1 Leverage Ratio	[]
Net Income before Taxes/Total Assets	[]
Nonperforming Loans and Leases/Gross Assets	[]
Other Real Estate Owned/Gross Assets	[]
Brokered Deposit Ratio	[]
One Year Asset Growth	[]
Loan Mix Index	[]
Weighted Average CAMELS Component Rating	[]

*Ratios are expressed as percentages.

**Multipliers are rounded to three decimal places.

Pricing Multipliers Applicable When the Reserve Ratio for the Prior Assessment Period Is Greater Than or Equal to 2.5 Percent

Risk measures*	Pricing multipliers**
Tier 1 Leverage Ratio	[]
Net Income before Taxes/Total Assets	[]
Nonperforming Loans and Leases/Gross Assets	[]
Other Real Estate Owned/Gross Assets	[]
Brokered Deposit Ratio	[]
One Year Asset Growth	[]
Loan Mix Index	[]
Weighted Average CAMELS Component Rating	[]

*Ratios are expressed as percentages.

**Multipliers are rounded to three decimal places.

(i) *Uniform amount.* Except as adjusted for the actual assessment rates set by the Board under §327.10(f), the uniform amount shall be:

- (A) _____ whenever the assessment rate schedule set forth in §327.10(b) is in effect;
- (B) _____ whenever the assessment rate schedule set forth in §327.10(c) is in effect; or
- (C) _____ whenever the assessment rate schedule set forth in §327.10(d) is in effect.

(ii) *Implementation of CAMELS rating changes—(A) Composite rating change.* If, during a quarter, a CAMELS composite rating change occurs in a way that changes the institution's initial base assessment rate, then the institution's initial base assessment rate for the portion of the quarter prior to the change shall be determined using the assessment schedule for the appropriate CAMELS composite rating in effect before the change, including any minimum or maximum initial base assessment rates, and subject to adjustment pursuant to paragraphs (e)(1) and (e)(2) of this section, as appropriate, and adjusted for actual assessment rates set by the Board under § 327.10(f). For the portion of the quarter after the CAMELS composite rating

change, the institution's initial base assessment rate shall be determined using the assessment schedule for the applicable CAMELS composite rating in effect, including any minimum or maximum initial base assessment rates, and subject to adjustment pursuant to paragraphs (e)(1) and (e)(2) of this section, as appropriate, and adjusted for actual assessment rates set by the Board under § 327.10(f).

(B) *Component ratings changes.* If, during a quarter, a CAMELS component rating change occurs in a way that changes the institution's initial base assessment rate, the initial base assessment rate for the period before the change shall be determined under the financial ratios method using the CAMELS component ratings in effect before the change, subject to adjustment under paragraphs (e)(1) and (e)(2) of this section, as appropriate. Beginning on the date of the CAMELS component rating change, the initial base assessment rate for the remainder of the quarter shall be determined under the financial ratios method using the CAMELS component ratings in effect after the change, again subject to adjustment under paragraphs (e)(1) and (e)(2), as appropriate.

(iii) *No CAMELS composite rating or no CAMELS component ratings—(A) No CAMELS composite rating.* If, during a quarter, an institution has no CAMELS composite rating, its initial assessment rate would be 2 basis points above the minimum initial assessment rate for established small institutions until it receives a CAMELS composite rating.

(B) *No CAMELS component ratings.* If, during a quarter, an institution has a CAMELS composite rating but no CAMELS component ratings, the initial base assessment rate for that institution shall be determined under the financial ratios method using the CAMELS composite rating for its weighted average CAMELS component rating and, if the institution has not yet

filed four quarterly Call Reports, by annualizing, where appropriate, financial ratios obtained from all quarterly Call Reports that have been filed.

(2) *Applicable reports of condition.* The financial ratios used to determine the assessment rate for an established small institution shall be based upon information contained in an institution's Consolidated Reports of Condition and Income or Thrift Financial Report (or successor report, as appropriate) dated as of March 31 for the assessment period beginning the preceding January 1; dated as of June 30 for the assessment period beginning the preceding April 1; dated as of September 30 for the assessment period beginning the preceding July 1; and dated as of December 31 for the assessment period beginning the preceding October 1.

(b) *Large and Highly Complex institutions—(1) Assessment scorecard for large institutions (other than highly complex institutions).* (i) A large institution other than a highly complex institution shall have its initial base assessment rate determined using the scorecard for large institutions.

SCORECARD FOR LARGE INSTITUTIONS

	Scorecard measures and components	Measure weights (percent)	Component weights (percent)
P	Performance Score		
P.1	Weighted Average CAMELS Rating	100	30
P.2	Ability to Withstand Asset-Related Stress		50
	Leverage ratio	10	
	Concentration Measure	35	
	Core Earnings/Average Quarter-End Total Assets*	20	
	Credit Quality Measure	35	
P.3	Ability to Withstand Funding-Related Stress		20
	Core Deposits/Total Liabilities	60	
	Balance Sheet Liquidity Ratio	40	

L	Loss Severity Score		
L.1	Loss Severity Measure		100

*Average of five quarter-end total assets (most recent and four prior quarters)

(ii) The scorecard for large institutions produces two scores: performance score and loss severity score.

(A) Performance score for large institutions. The performance score for large institutions is a weighted average of the scores for three measures: the weighted average CAMELS rating score, weighted at 30 percent; the ability to withstand asset-related stress score, weighted at 50 percent; and the ability to withstand funding-related stress score, weighted at 20 percent.

(I) *Weighted average CAMELS rating score.* (i) To compute the weighted average CAMELS rating score, a weighted average of an institution's CAMELS component ratings is calculated using the following weights:

CAMELS Component	Weight
C	25%
A	20%
M	25%
E	10%
L	10%
S	10%

(ii) A weighted average CAMELS rating converts to a score that ranges from 25 to 100. A weighted average rating of 1 equals a score of 25 and a weighted average of 3.5 or greater equals a score of 100. Weighted average CAMELS ratings between 1 and 3.5 are assigned a score between 25 and 100. The score increases at an increasing rate as the weighted average CAMELS rating increases. Appendix B of this subpart describes the conversion of a weighted average CAMELS rating to a score.

(2) *Ability to withstand asset-related stress score.* (i) The ability to withstand asset-related stress score is a weighted average of the scores for four measures: Leverage ratio; concentration measure; the ratio of core earnings to average quarter-end total assets; and the credit quality measure. Appendices A and C of this subpart define these measures.

(ii) The Leverage ratio and the ratio of core earnings to average quarter-end total assets are described in appendix A and the method of calculating the scores is described in appendix C of this subpart.

(iii) The score for the concentration measure is the greater of the higher-risk assets to Tier 1 capital and reserves score or the growth-adjusted portfolio concentrations score. Both ratios are described in appendix C.

(iv) The score for the credit quality measure is the greater of the criticized and classified items to Tier 1 capital and reserves score or the underperforming assets to Tier 1 capital and reserves score.

(v) The following table shows the cutoff values and weights for the measures used to calculate the ability to withstand asset-related stress score. Appendix B of this subpart describes how each measure is converted to a score between 0 and 100 based upon the minimum and maximum cutoff values, where a score of 0 reflects the lowest risk and a score of 100 reflects the highest risk.

CUTOFF VALUES AND WEIGHTS FOR MEASURES TO CALCULATE ABILITY TO WITHSTAND ASSET-RELATED STRESS SCORE

Measures of the ability to withstand asset-related stress	Cutoff values		Weights (percent)
	Minimum (percent)	Maximum (percent)	
Leverage ratio	6	13	10
Concentration Measure			35
Higher-Risk Assets to Tier 1 Capital and Reserves; or	0	135	
Growth-Adjusted Portfolio Concentrations	4	56	
Core Earnings/Average Quarter-End Total Assets*	0	2	20
Credit Quality Measure			35
Criticized and Classified Items/Tier 1 Capital and Reserves; or	7	100	
Underperforming Assets/Tier 1 Capital and Reserves	2	35	

*Average of five quarter-end total assets (most recent and four prior quarters).

(vi) The score for each measure in the table in paragraph (b)(1)(ii)(A)(2)(v) of this section is multiplied by its respective weight and the resulting weighted score is summed to arrive at the score for an ability to withstand asset-related stress, which can range from 0 to 100, where a score of 0 reflects the lowest risk and a score of 100 reflects the highest risk.

(3) Ability to withstand funding-related stress score. Two measures are used to compute the ability to withstand funding-related stress score: a core deposits to total liabilities ratio, and a balance sheet liquidity ratio. Appendix A of this subpart describes these measures. Appendix B of this subpart describes how these measures are converted to a score between 0 and 100, where a score of 0 reflects the lowest risk and a score of 100 reflects the highest risk. The ability to withstand funding-related stress score is the weighted average of the scores for the two measures. In the following table, cutoff values and weights are used to derive an institution's ability to withstand funding-related stress score:

CUTOFF VALUES AND WEIGHTS TO CALCULATE ABILITY TO WITHSTAND FUNDING-RELATED STRESS SCORE

Measures of the ability to withstand funding-related stress	Cutoff values		Weights (percent)
	Minimum (percent)	Maximum (percent)	
Core Deposits/Total Liabilities	5	87	60
Balance Sheet Liquidity Ratio	7	243	40

(4) Calculation of Performance Score. In paragraph (b)(1)(ii)(A)(3) of this section, the scores for the weighted average CAMELS rating, the ability to withstand asset-related stress, and the ability to withstand funding-related stress are multiplied by their respective weights (30 percent, 50 percent and 20 percent, respectively) and the results are summed to arrive at the performance score. The performance score cannot be less than 0 or more than 100, where a score of 0 reflects the lowest risk and a score of 100 reflects the highest risk.

(B) *Loss severity score.* The loss severity score is based on a loss severity measure that is described in appendix D of this subpart. Appendix B also describes how the loss severity measure is converted to a score between 0 and 100. The loss severity score cannot be less than 0 or more than 100, where a score of 0 reflects the lowest risk and a score of 100 reflects the highest risk. Cutoff values for the loss severity measure are:

CUTOFF VALUES TO CALCULATE LOSS SEVERITY SCORE

Measure of loss severity	Cutoff values	
	Minimum (percent)	Maximum (percent)
Loss Severity	0	28

(C) *Total score.* (1) The performance and loss severity scores are combined to produce a total score. The loss severity score is converted into a loss severity factor that ranges from 0.8 (score of 5 or lower) to 1.2 (score of 85 or higher). Scores at or below the minimum cutoff of 5

receive a loss severity factor of 0.8, and scores at or above the maximum cutoff of 85 receive a loss severity factor of 1.2. The following linear interpolation converts loss severity scores between the cutoffs into a loss severity factor:

(Loss Severity Factor = 0.8 + [0.005 * (Loss Severity Score – 5)]).

(2) The performance score is multiplied by the loss severity factor to produce a total score (total score = performance score * loss severity factor). The total score can be up to 20 percent higher or lower than the performance score but cannot be less than 30 or more than 90. The total score is subject to adjustment, up or down, by a maximum of 15 points, as set forth in paragraph (b)(3) of this section. The resulting total score after adjustment cannot be less than 30 or more than 90.

(D) *Initial base assessment rate.* A large institution with a total score of 30 pays the minimum initial base assessment rate and an institution with a total score of 90 pays the maximum initial base assessment rate. For total scores between 30 and 90, initial base assessment rates rise at an increasing rate as the total score increases, calculated according to the following formula:

$$Rate = Minimum\ Rate + \left[\left(\left(1.4245 \times \left(\frac{Score}{100} \right)^3 \right) - 0.0385 \right) \times (Maximum\ Rate - Minimum\ Rate) \right]$$

where Rate is the initial base assessment rate (expressed in basis points), Maximum Rate is the maximum initial base assessment rate then in effect (expressed in basis points), and Minimum Rate is the minimum initial base assessment rate then in effect (expressed in basis points). Initial base assessment rates are subject to adjustment pursuant to paragraphs (b)(3), (e)(1), (e)(2), of this section; large institutions that are not well capitalized or have a CAMELS composite rating

of 3, 4 or 5 shall be subject to the adjustment at paragraph (e)(3) of this section; these adjustments shall result in the institution's total base assessment rate, which in no case can be lower than 50 percent of the institution's initial base assessment rate.

(2) *Assessment scorecard for highly complex institutions.* (i) A highly complex institution shall have its initial base assessment rate determined using the scorecard for highly complex institutions.

SCORECARD FOR HIGHLY COMPLEX INSTITUTIONS

	Measures and components	Measure weights (percent)	Component weights (percent)
P	Performance Score		
P.1	Weighted Average CAMELS Rating	100	30
P.2	Ability To Withstand Asset-Related Stress		50
	Leverage ratio	10	
	Concentration Measure	35	
	Core Earnings/Average Quarter-End Total Assets	20	
	Credit Quality Measure and Market Risk Measure	35	
P.3	Ability To Withstand Funding-Related Stress		20
	Core Deposits/Total Liabilities	50	
	Balance Sheet Liquidity Ratio	30	
	Average Short-Term Funding/Average Total Assets	20	
L	Loss Severity Score		
L.1	Loss Severity		100

(ii) The scorecard for highly complex institutions produces two scores: performance and loss severity.

(A) Performance score for highly complex institutions. The performance score for highly complex institutions is the weighted average of the scores for three components: weighted average CAMELS rating, weighted at 30 percent; ability to withstand asset-related stress score,

weighted at 50 percent; and ability to withstand funding-related stress score, weighted at 20 percent.

(1) *Weighted average CAMELS rating score.* (i) To compute the score for the weighted average CAMELS rating, a weighted average of an institution's CAMELS component ratings is calculated using the following weights:

CAMELS Component	Weight
C	25%
A	20%
M	25%
E	10%
L	10%
S	10%

(ii) A weighted average CAMELS rating converts to a score that ranges from 25 to 100. A weighted average rating of 1 equals a score of 25 and a weighted average of 3.5 or greater equals a score of 100. Weighted average CAMELS ratings between 1 and 3.5 are assigned a score between 25 and 100. The score increases at an increasing rate as the weighted average CAMELS rating increases. Appendix B of this subpart describes the conversion of a weighted average CAMELS rating to a score.

(2) *Ability to withstand asset-related stress score.* (i) The ability to withstand asset-related stress score is a weighted average of the scores for four measures: Leverage ratio; concentration measure; ratio of core earnings to average quarter-end total assets; credit quality measure and market risk measure. Appendix A of this subpart describes these measures.

(ii) The Leverage ratio and the ratio of core earnings to average quarter-end total assets are described in appendix A and the method of calculating the scores is described in appendix B of this subpart.

(iii) The score for the concentration measure for highly complex institutions is the greatest of the higher-risk assets to the sum of Tier 1 capital and reserves score, the top 20 counterparty exposure to the sum of Tier 1 capital and reserves score, or the largest counterparty exposure to the sum of Tier 1 capital and reserves score. Each ratio is described in appendix A of this subpart. The method used to convert the concentration measure into a score is described in appendix C of this subpart.

(iv) The credit quality score is the greater of the criticized and classified items to Tier 1 capital and reserves score or the underperforming assets to Tier 1 capital and reserves score. The market risk score is the weighted average of three scores—the trading revenue volatility to Tier 1 capital score, the market risk capital to Tier 1 capital score, and the level 3 trading assets to Tier 1 capital score. All of these ratios are described in appendix A of this subpart and the method of calculating the scores is described in appendix B. Each score is multiplied by its respective weight, and the resulting weighted score is summed to compute the score for the market risk measure. An overall weight of 35 percent is allocated between the scores for the credit quality measure and market risk measure. The allocation depends on the ratio of average trading assets to the sum of average securities, loans and trading assets (trading asset ratio) as follows:

(v) Weight for credit quality score = 35 percent * (1—trading asset ratio); and,

(vi) Weight for market risk score = 35 percent * trading asset ratio.

(vii) Each of the measures used to calculate the ability to withstand asset-related stress score is assigned the following cutoff values and weights:

CUTOFF VALUES AND WEIGHTS FOR MEASURES TO CALCULATE THE ABILITY TO WITHSTAND ASSET-RELATED STRESS SCORE

Measures of the ability to withstand asset-related stress	Cutoff values		Market risk measure (percent)	Weights (percent)
	Minimum (percent)	Maximum (percent)		
Leverage ratio	6	13		10.
Concentration Measure				35.
Higher Risk Assets/Tier 1 Capital and Reserves;	0	135		
Top 20 Counterparty Exposure/Tier 1 Capital and Reserves; or	0	125		
Largest Counterparty Exposure/Tier 1 Capital and Reserves	0	20		
Core Earnings/Average Quarter-end Total Assets	0	2		20.
Credit Quality Measure*				35* (1 – Trading Asset Ratio).
Criticized and Classified Items to Tier 1 Capital and Reserves; or	7	100		
Underperforming Assets/Tier 1 Capital and Reserves	2	35		
Market Risk Measure*				35* Trading Asset Ratio.
Trading Revenue Volatility/Tier 1 Capital	0	2	60	
Market Risk Capital/Tier 1 Capital	0	10	20	
Level 3 Trading Assets/Tier 1 Capital	0	35	20	

*Combined, the credit quality measure and the market risk measure are assigned a 35 percent weight. The relative weight of each of the two scores depends on the ratio of average trading assets to the sum of average securities, loans and trading assets (trading asset ratio).

(viii) [Reserved]

(ix) The score of each measure is multiplied by its respective weight and the resulting weighted score is summed to compute the ability to withstand asset-related stress score, which can range from 0 to 100, where a score of 0 reflects the lowest risk and a score of 100 reflects the highest risk.

(3) Ability to withstand funding related stress score. Three measures are used to calculate the score for the ability to withstand funding-related stress: a core deposits to total liabilities ratio, a balance sheet liquidity ratio, and average short-term funding to average total assets ratio. Appendix A of this subpart describes these ratios. Appendix B of this subpart describes how each measure is converted to a score. The ability to withstand funding-related stress score is the weighted average of the scores for the three measures. In the following table, cutoff values and weights are used to derive an institution's ability to withstand funding-related stress score:

CUTOFF VALUES AND WEIGHTS TO CALCULATE ABILITY TO WITHSTAND FUNDING-RELATED STRESS MEASURES

Measures of the ability to withstand funding-related stress	Cutoff values		Weights (percent)
	Minimum (percent)	Maximum (percent)	
Core Deposits/Total Liabilities	5	87	50
Balance Sheet Liquidity Ratio	7	243	30
Average Short-term Funding/Average Total Assets	2	19	20

(4) Calculation of Performance Score. The weighted average CAMELS score, the ability to withstand asset-related stress score, and the ability to withstand funding-related stress score are multiplied by their respective weights (30 percent, 50 percent and 20 percent, respectively) and the results are summed to arrive at the performance score, which cannot be less than 0 or more than 100.

(B) *Loss severity score.* The loss severity score is based on a loss severity measure described in appendix D of this subpart. Appendix B of this subpart also describes how the loss severity measure is converted to a score between 0 and 100. Cutoff values for the loss severity measure are:

CUTOFF VALUES FOR LOSS SEVERITY MEASURE

Measure of loss severity	Cutoff values	
	Minimum (percent)	Maximum (percent)
Loss Severity	0	28

(C) *Total score.* The performance and loss severity scores are combined to produce a total score. The loss severity score is converted into a loss severity factor that ranges from 0.8 (score of 5 or lower) to 1.2 (score of 85 or higher). Scores at or below the minimum cutoff of 5 receive a loss severity factor of 0.8, and scores at or above the maximum cutoff of 85 receive a loss severity factor of 1.2. The following linear interpolation converts loss severity scores between the cutoffs into a loss severity factor: (Loss Severity Factor = $0.8 + [0.005 * (\text{Loss Severity Score} - 5)]$). The performance score is multiplied by the loss severity factor to produce a total score (total score = performance score * loss severity factor). The total score can be up to 20 percent higher or lower than the performance score but cannot be less than 30 or more than 90. The total score is subject to adjustment, up or down, by a maximum of 15 points, as set forth in paragraph (b)(3) of this section. The resulting total score after adjustment cannot be less than 30 or more than 90.

(D) *Initial base assessment rate.* A highly complex institution with a total score of 30 pays the minimum initial base assessment rate and an institution with a total score of 90 pays the maximum initial base assessment rate. For total scores between 30 and 90, initial base assessment rates rise at an increasing rate as the total score increases, calculated according to the following formula:

$$\text{Rate} = \text{Minimum Rate} + \left[\left(1.4245 \times \left(\frac{\text{Score}}{100} \right)^3 \right) - 0.0385 \right] \times (\text{Maximum Rate} - \text{Minimum Rate})$$

where Rate is the initial base assessment rate (expressed in basis points), Maximum Rate is the maximum initial base assessment rate then in effect (expressed in basis points), and Minimum Rate is the minimum initial base assessment rate then in effect (expressed in basis points). Initial base assessment rates are subject to adjustment pursuant to paragraphs (b)(3), (e)(1), and (e)(2) of this section; highly complex institutions that are not well capitalized or have a CAMELS composite rating of 3, 4 or 5 shall be subject to the adjustment at paragraph (e)(3) of this section; these adjustments shall result in the institution's total base assessment rate, which in no case can be lower than 50 percent of the institution's initial base assessment rate.

(3) Adjustment to total score for large institutions and highly complex institutions. The total score for large institutions and highly complex institutions is subject to adjustment, up or down, by a maximum of 15 points, based upon significant risk factors that are not adequately captured in the appropriate scorecard. In making such adjustments, the FDIC may consider such information as financial performance and condition information and other market or supervisory information. The FDIC will also consult with an institution's primary federal regulator and, for state chartered institutions, state banking supervisor.

(i) *Prior notice of adjustments—(A) Prior notice of upward adjustment.* Prior to making any upward adjustment to an institution's total score because of considerations of additional risk information, the FDIC will formally notify the institution and its primary federal regulator and provide an opportunity to respond. This notification will include the reasons for the adjustment and when the adjustment will take effect.

(B) *Prior notice of downward adjustment.* Prior to making any downward adjustment to an institution's total score because of considerations of additional risk information, the FDIC will formally notify the institution's primary federal regulator and provide an opportunity to respond.

(ii) *Determination whether to adjust upward; effective period of adjustment.* After considering an institution's and the primary federal regulator's responses to the notice, the FDIC will determine whether the adjustment to an institution's total score is warranted, taking into account any revisions to scorecard measures, as well as any actions taken by the institution to address the FDIC's concerns described in the notice. The FDIC will evaluate the need for the adjustment each subsequent assessment period. Except as provided in paragraph (b)(3)(iv) of this section, the amount of adjustment cannot exceed the proposed adjustment amount contained in the initial notice unless additional notice is provided so that the primary federal regulator and the institution may respond.

(iii) *Determination whether to adjust downward; effective period of adjustment.* After considering the primary federal regulator's responses to the notice, the FDIC will determine whether the adjustment to total score is warranted, taking into account any revisions to scorecard measures. Any downward adjustment in an institution's total score will remain in effect for subsequent assessment periods until the FDIC determines that an adjustment is no longer warranted. Downward adjustments will be made without notification to the institution. However, the FDIC will provide advance notice to an institution and its primary federal regulator and give them an opportunity to respond before removing a downward adjustment.

(iv) *Adjustment without notice.* Notwithstanding the notice provisions set forth above, the FDIC may change an institution's total score without advance notice under this paragraph, if the institution's supervisory ratings or the scorecard measures deteriorate.

(c) *New small institutions—(1) Risk Categories.* Each new small institution shall be assigned to one of the following four Risk Categories based upon the institution's capital evaluation and supervisory evaluation as defined in this section.

(i) *Risk Category I.* New small institutions in Supervisory Group A that are Well Capitalized will be assigned to Risk Category I.

(ii) *Risk Category II.* New small institutions in Supervisory Group A that are Adequately Capitalized, and new small institutions in Supervisory Group B that are either Well Capitalized or Adequately Capitalized will be assigned to Risk Category II.

(iii) *Risk Category III.* New small institutions in Supervisory Groups A and B that are Undercapitalized, and new small institutions in Supervisory Group C that are Well Capitalized or Adequately Capitalized will be assigned to Risk Category III.

(iv) *Risk Category IV.* New small institutions in Supervisory Group C that are Undercapitalized will be assigned to Risk Category IV.

(2) *Capital evaluations.* Each new small institution will receive one of the following three capital evaluations on the basis of data reported in the institution's Consolidated Reports of Condition and Income or Thrift Financial Report (or successor report, as appropriate) dated as of March 31 for the assessment period beginning the preceding January 1; dated as of June 30 for the assessment period beginning the preceding April 1; dated as of September 30 for the

assessment period beginning the preceding July 1; and dated as of December 31 for the assessment period beginning the preceding October 1.

(i) *Well Capitalized.* A Well Capitalized institution is one that satisfies each of the following capital ratio standards: Total risk-based capital ratio, 10.0 percent or greater; tier 1 risk-based capital ratio, 8.0 percent or greater; leverage ratio, 5.0 percent or greater; and common equity tier 1 capital ratio, 6.5 percent or greater, and after January 1, 2018, if the institution is an insured depository institution subject to the enhanced supplementary leverage ratio standards under 12 CFR 6.4(c)(1)(iv)(B), 12 CFR 208.43(c)(1)(iv)(B), or 12 CFR 324.403(b)(1)(vi), as each may be amended from time to time, a supplementary leverage ratio of 6.0 percent or greater.

(ii) *Adequately Capitalized.* An Adequately Capitalized institution is one that does not satisfy the standards of Well Capitalized in paragraph (c)(2)(i) of this section but satisfies each of the following capital ratio standards: Total risk-based capital ratio, 8.0 percent or greater; tier 1 risk-based capital ratio, 6.0 percent or greater; leverage ratio, 4.0 percent or greater; and common equity tier 1 capital ratio, 4.5 percent or greater, and after January 1, 2018, if the institution is an insured depository institution subject to the advanced approaches risk-based capital rules under 12 CFR 6.4(c)(2)(iv)(B), 12 CFR 208.43(c)(2)(iv)(B), or 12 CFR 324.403(b)(2)(vi), as each may be amended from time to time, a supplementary leverage ratio of 3.0 percent or greater.

(iii) *Undercapitalized.* An undercapitalized institution is one that does not qualify as either Well Capitalized or Adequately Capitalized under paragraphs (c)(2)(i) and (ii) of this section.

(3) *Supervisory evaluations.* Each new small institution will be assigned to one of three Supervisory Groups based on the Corporation's consideration of supervisory evaluations provided by the institution's primary federal regulator. The supervisory evaluations include the results of examination findings by the primary federal regulator, as well as other information that the primary federal regulator determines to be relevant. In addition, the Corporation will take into consideration such other information (such as state examination findings, as appropriate) as it determines to be relevant to the institution's financial condition and the risk posed to the Deposit Insurance Fund. The three Supervisory Groups are:

(i) *Supervisory Group "A."* This Supervisory Group consists of financially sound institutions with only a few minor weaknesses;

(ii) *Supervisory Group "B."* This Supervisory Group consists of institutions that demonstrate weaknesses which, if not corrected, could result in significant deterioration of the institution and increased risk of loss to the Deposit Insurance Fund; and

(iii) *Supervisory Group "C."* This Supervisory Group consists of institutions that pose a substantial probability of loss to the Deposit Insurance Fund unless effective corrective action is taken.

(4) *Assessment method for new small institutions in Risk Category I—(i) Maximum Initial Base Assessment Rate for Risk Category I New Small Institutions.* A new small institution in Risk Category I shall be assessed the maximum initial base assessment rate for Risk Category I small institutions in the relevant assessment period.

(ii) *New small institutions not subject to certain adjustments.* No new small institution in any risk category shall be subject to the adjustment in paragraph (e)(1) of this section.

(iii) *Implementation of CAMELS rating changes—Changes between risk categories.* If, during a quarter, a CAMELS composite rating change occurs that results in a Risk Category I institution moving from Risk Category I to Risk Category II, III or IV, the institution's initial base assessment rate for the portion of the quarter that it was in Risk Category I shall be the maximum initial base assessment rate for the relevant assessment period, subject to adjustment pursuant to paragraph (e)(2) of this section, as appropriate, and adjusted for the actual assessment rates set by the Board under §327.10(g). For the portion of the quarter that the institution was not in Risk Category I, the institution's initial base assessment rate, which shall be subject to adjustment pursuant to paragraphs (e)(2) and (3) of this section, as appropriate, shall be determined under the assessment schedule for the appropriate Risk Category. If, during a quarter, a CAMELS composite rating change occurs that results in an institution moving from Risk Category II, III or IV to Risk Category I, then the maximum initial base assessment rate for new small institutions in Risk Category I shall apply for the portion of the quarter that it was in Risk Category I, subject to adjustment pursuant to paragraph (e)(2) of this section, as appropriate, and adjusted for the actual assessment rates set by the Board under §327.10(g). For the portion of the quarter that the institution was not in Risk Category I, the institution's initial base assessment rate, which shall be subject to adjustment pursuant to paragraphs (e)(2) and (3) of this section shall be determined under the assessment schedule for the appropriate Risk Category.

(d) *Insured branches of foreign banks—(1) Risk categories for insured branches of foreign banks.* Insured branches of foreign banks shall be assigned to risk categories as set forth in paragraph (c)(1) of this section.

(2) *Capital evaluations for insured branches of foreign banks.* Each insured branch of a foreign bank will receive one of the following three capital evaluations on the basis of data reported in the institution's Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks dated as of March 31 for the assessment period beginning the preceding January 1; dated as of June 30 for the assessment period beginning the preceding April 1; dated as of September 30 for the assessment period beginning the preceding July 1; and dated as of December 31 for the assessment period beginning the preceding October 1.

(i) *Well Capitalized.* An insured branch of a foreign bank is Well Capitalized if the insured branch:

(A) Maintains the pledge of assets required under §347.209 of this chapter; and

(B) Maintains the eligible assets prescribed under §347.210 of this chapter at 108 percent or more of the average book value of the insured branch's third-party liabilities for the quarter ending on the report date specified in paragraph (d)(2) of this section.

(ii) *Adequately Capitalized.* An insured branch of a foreign bank is Adequately Capitalized if the insured branch:

(A) Maintains the pledge of assets required under §347.209 of this chapter; and

(B) Maintains the eligible assets prescribed under §347.210 of this chapter at 106 percent or more of the average book value of the insured branch's third-party liabilities for the quarter ending on the report date specified in paragraph (d)(2) of this section; and

(C) Does not meet the definition of a Well Capitalized insured branch of a foreign bank.

(iii) *Undercapitalized.* An insured branch of a foreign bank is undercapitalized institution if it does not qualify as either Well Capitalized or Adequately Capitalized under paragraphs (d)(2)(i) and (ii) of this section.

(3) *Supervisory evaluations for insured branches of foreign banks.* Each insured branch of a foreign bank will be assigned to one of three supervisory groups as set forth in paragraph (c)(3) of this section.

(4) *Assessment method for insured branches of foreign banks in Risk Category I.* Insured branches of foreign banks in Risk Category I shall be assessed using the weighted average ROCA component rating.

(i) *Weighted average ROCA component rating.* The weighted average ROCA component rating shall equal the sum of the products that result from multiplying ROCA component ratings by the following percentages: Risk Management—35%, Operational Controls—25%, Compliance—25%, and Asset Quality—15%. The weighted average ROCA rating will be multiplied by 5.076 (which shall be the pricing multiplier). To this result will be added a uniform amount. The resulting sum—the initial base assessment rate—will equal an institution's total base assessment rate; provided, however, that no institution's total base assessment rate will be less than the minimum total base assessment rate in effect for Risk Category I institutions for that quarter nor greater than the maximum total base assessment rate in effect for Risk Category I institutions for that quarter.

(ii) *Uniform amount.* Except as adjusted for the actual assessment rates set by the Board under §327.10(g), the uniform amount for all insured branches of foreign banks shall be:

(A) –3.127 whenever the assessment rate schedule set forth in §327.10(a) is in effect;

(B) –5.127 whenever the assessment rate schedule set forth in §327.10(b) is in effect;

(C) –6.127 whenever the assessment rate schedule set forth in §327.10(c) is in effect; or

(D) –7.127 whenever the assessment rate schedule set forth in §327.10(d) is in effect.

(iii) *Insured branches of foreign banks not subject to certain adjustments.* No insured branch of a foreign bank in any risk category shall be subject to the adjustments in paragraphs (b)(3) or (e)(1) or (3) of this section.

(iv) *Implementation of changes between Risk Categories for insured branches of foreign banks.* If, during a quarter, a ROCA rating change occurs that results in an insured branch of a foreign bank moving from Risk Category I to Risk Category II, III or IV, the institution's initial base assessment rate for the portion of the quarter that it was in Risk Category I shall be determined using the weighted average ROCA component rating. For the portion of the quarter that the institution was not in Risk Category I, the institution's initial base assessment rate shall be determined under the assessment schedule for the appropriate Risk Category. If, during a quarter, a ROCA rating change occurs that results in an insured branch of a foreign bank moving from Risk Category II, III or IV to Risk Category I, the institution's assessment rate for the portion of the quarter that it was in Risk Category I shall equal the rate determined as provided using the weighted average ROCA component rating. For the portion of the quarter that the institution was not in Risk Category I, the institution's initial base assessment rate shall be determined under the assessment schedule for the appropriate Risk Category.

(v) *Implementation of changes within Risk Category I for insured branches of foreign banks.* If, during a quarter, an insured branch of a foreign bank remains in Risk Category I, but a ROCA component rating changes that will affect the institution's initial base assessment rate, separate assessment rates for the portion(s) of the quarter before and after the change(s) shall be determined under this paragraph (d)(4) of this section.

(e) *Adjustments—(1) Unsecured debt adjustment to initial base assessment rate for all institutions.* All institutions, except new institutions as provided under paragraphs (g)(1) and (2) of this section and insured branches of foreign banks as provided under paragraph (d)(4)(iii) of this section, shall be subject to an adjustment of assessment rates for unsecured debt. Any unsecured debt adjustment shall be made after any adjustment under paragraph (b)(3) of this section.

(i) *Application of unsecured debt adjustment.* The unsecured debt adjustment shall be determined as the sum of the initial base assessment rate plus 40 basis points; that sum shall be multiplied by the ratio of an insured depository institution's long-term unsecured debt to its assessment base. The amount of the reduction in the assessment rate due to the adjustment is equal to the dollar amount of the adjustment divided by the amount of the assessment base.

(ii) *Limitation.* No unsecured debt adjustment for any institution shall exceed the lesser of 5 basis points or 50 percent of the institution's initial base assessment rate.

(iii) *Applicable quarterly reports of condition.* Unsecured debt adjustment ratios for any given quarter shall be calculated from quarterly reports of condition (Consolidated Reports of Condition and Income and Thrift Financial Reports, or any successor reports to either, as appropriate) filed by each institution as of the last day of the quarter.

(2) Depository institution debt adjustment to initial base assessment rate for all institutions. All institutions shall be subject to an adjustment of assessment rates for unsecured debt held that is issued by another depository institution. Any such depository institution debt adjustment shall be made after any adjustment under paragraphs (b)(3) and (e)(1) of this section.

(i) Application of depository institution debt adjustment. An insured depository institution shall pay a 50 basis point adjustment on the amount of unsecured debt it holds that was issued by another insured depository institution to the extent that such debt exceeds 3 percent of the institution's Tier 1 capital. The amount of long-term unsecured debt issued by another insured depository institution shall be calculated using the same valuation methodology used to calculate the amount of such debt for reporting on the asset side of the balance sheets.

(ii) Applicable quarterly reports of condition. Depository institution debt adjustment ratios for any given quarter shall be calculated from quarterly reports of condition (Consolidated Reports of Condition and Income and Thrift Financial Reports, or any successor reports to either, as appropriate) filed by each institution as of the last day of the quarter.

(3) Brokered Deposit Adjustment. All new small institutions in Risk Categories II, III, and IV, all large institutions and all highly complex institutions, except large and highly complex institutions (including new large and new highly complex institutions) that are well capitalized and have a CAMELS composite rating of 1 or 2, shall be subject to an assessment rate adjustment for brokered deposits. Any such brokered deposit adjustment shall be made after any adjustment under paragraphs (b)(3) and (e)(1) and (2) of this section. The brokered deposit adjustment includes all brokered deposits as defined in Section 29 of the Federal Deposit Insurance Act (12 U.S.C. 1831f), and 12 CFR 337.6, including reciprocal deposits as defined in

§327.8(p), and brokered deposits that consist of balances swept into an insured institution from another institution. The adjustment under this paragraph is limited to those institutions whose ratio of brokered deposits to domestic deposits is greater than 10 percent; asset growth rates do not affect the adjustment. Insured branches of foreign banks are not subject to the brokered deposit adjustment as provided in paragraph (d)(4)(iii) of this section.

(i) *Application of brokered deposit adjustment.* The brokered deposit adjustment shall be determined by multiplying 25 basis points by the ratio of the difference between an insured depository institution's brokered deposits and 10 percent of its domestic deposits to its assessment base.

(ii) *Limitation.* The maximum brokered deposit adjustment will be 10 basis points; the minimum brokered deposit adjustment will be 0.

(iii) *Applicable quarterly reports of condition.* The brokered deposit adjustment for any given quarter shall be calculated from the quarterly reports of condition (Call Reports and Thrift Financial Reports, or any successor reports to either, as appropriate) filed by each institution as of the last day of the quarter.

(f) *Request to be treated as a large institution—(1) Procedure.* Any institution with assets of between \$5 billion and \$10 billion may request that the FDIC determine its assessment rate as a large institution. The FDIC will consider such a request provided that it has sufficient information to do so. Any such request must be made to the FDIC's Division of Insurance and Research. Any approved change will become effective within one year from the date of the request. If an institution whose request has been granted subsequently reports assets of less than

\$5 billion in its report of condition for four consecutive quarters, the institution shall be deemed a small institution for assessment purposes.

(2) *Time limit on subsequent request for alternate method.* An institution whose request to be assessed as a large institution is granted by the FDIC shall not be eligible to request that it be assessed as a small institution for a period of three years from the first quarter in which its approved request to be assessed as a large institution became effective. Any request to be assessed as a small institution must be made to the FDIC's Division of Insurance and Research.

(3) *Request for Review.* An institution that disagrees with the FDIC's determination that it is a large, highly complex, or small institution may request review of that determination pursuant to §327.4(c).

(g) *New and established institutions and exceptions—*(1) *New small institutions.* A new small Risk Category I institution shall be assessed the Risk Category I maximum initial base assessment rate for the relevant assessment period. No new small institution in any risk category shall be subject to the unsecured debt adjustment as determined under paragraph (e)(1) of this section. All new small institutions in any Risk Category shall be subject to the depository institution debt adjustment as determined under paragraph (e)(2) of this section. All new small institutions in Risk Categories II, III, and IV shall be subject to the brokered deposit adjustment as determined under paragraph (e)(3) of this section.

(2) *New large institutions and new highly complex institutions.* All new large institutions and all new highly complex institutions shall be assessed under the appropriate method provided at paragraph (b)(1) or (2) of this section and subject to the adjustments provided at paragraphs (b)(3) and (e)(2) and (3) of this section. No new highly complex or large institutions are entitled

to adjustment under paragraph (e)(1) of this section. If a large or highly complex institution has not yet received CAMELS ratings, it will be given a weighted CAMELS rating of 2 for assessment purposes until actual CAMELS ratings are assigned.

(3) *CAMELS ratings for the surviving institution in a merger or consolidation.* When an established institution merges with or consolidates into a new institution, if the FDIC determines the resulting institution to be an established institution under §327.8(k)(1), its CAMELS ratings for assessment purposes will be based upon the established institution's ratings prior to the merger or consolidation until new ratings become available.

(4) *Rate applicable to institutions subject to subsidiary or credit union exception—(i) Established small institutions.* A small institution that is established under §327.8(k)(4) or (5) shall be assessed as follows:

(A) If the institution does not have a CAMELS composite rating, its initial base assessment rate shall be 2 basis points above the minimum initial base assessment rate applicable to established small institutions until it receives a CAMELS composite rating.

(B) If the institution has a CAMELS composite rating but no CAMELS component ratings, its initial assessment rate shall be determined using the financial ratios method, as set forth in (a)(1) of this section, but its CAMELS composite rating will be substituted for its weighted average CAMELS component rating and, if the institution has not filed four quarterly reports of condition, then the assessment rate will be determined by annualizing, where appropriate, financial ratios from all quarterly reports of condition that have been filed.

(ii) *Large or highly complex institutions.* If a large or highly complex institution is considered established under §327.8(k)(4) or (5), but does not have CAMELS component ratings, it will be given a weighted CAMELS rating of 2 for assessment purposes until actual CAMELS ratings are assigned.

(5) *Request for review.* An institution that disagrees with the FDIC's determination that it is a new institution may request review of that determination pursuant to §327.4(c).

(h) *Assessment rates for bridge depository institutions and conservatorships.* Institutions that are bridge depository institutions under 12 U.S.C. 1821(n) and institutions for which the Corporation has been appointed or serves as conservator shall, in all cases, be assessed at the Risk Category I minimum initial base assessment rate, which shall not be subject to adjustment under paragraphs (b)(3), (e)(1), (2), or (3) of this section.

8. Add Appendix E to part 327 to read as follows:

Appendix E

Method to Derive Pricing Multipliers and Uniform Amount

I. Introduction

The uniform amount and pricing multipliers are derived from:

- A model (the Statistical Model) that estimates the probability of failure of an institution over a three-year horizon;
- The minimum initial base assessment rate;

- The maximum initial base assessment rate;
- Thresholds marking the points at which the maximum and minimum assessment rates become effective.

II. The Statistical Model

The Statistical Model estimates the probability of an insured depository institution failing within three years using a logistic regression and pooled time-series cross-sectional data;¹ that is, the dependent variable in the estimation is whether an insured depository institution failed during the following three-year period. Actual model parameters for the Statistical Model are an average of each of three regression estimates for each parameter. Each of the three regressions uses end-of-year data from insured depository institutions' quarterly reports of condition and income (Call Reports and Thrift Financial Reports or TFRs²) for every third year to estimate probability of failure within the ensuing three years. One regression (Regression 1) uses insured depository institutions' Call Report and TFR data for the end of 1985 and failures from 1986 through 1988; Call Report and TFR data for the end of 1988 and failures from 1989 through 1991; and so on, ending with Call Report data for the end of 2009 and failures from 2010 through 2012. The second regression (Regression 2) uses insured depository institutions' Call Report and TFR data for the end of 1986 and failures from 1987 through 1989, and so on, ending with Call Report data for the end of 2010 and failures from 2011 through 2013. The third regression (Regression 3) uses insured depository institutions' Call Report and TFR data for the end of 1987 and failures from 1988 through 1990, and so on, ending with Call Report data for the end of 2011 and

¹ Tests for the statistical significance of parameters use adjustments discussed by Tyler Shumway (2001) "Forecasting Bankruptcy More Accurately: A Simple Hazard Model," *Journal of Business* 74:1, 101-124.

² Beginning in 2012, all insured depository institutions began filing quarterly Call Reports and the TFR was no longer filed.

failures from 2012 through 2014. The regressions include only Call Report data and failures for established small institutions.

Table E.1 lists and defines the explanatory variables (regressors) in the Statistical Model and the measures used in Sec. 327.16(a)(1).

Table E.1—Definitions of Measures Used in the Financial Ratios Method

Variables	Description
Tier 1 Leverage Ratio (%)	Tier 1 capital divided by adjusted average assets. (Numerator and denominator are both based on the definition for prompt corrective action.)
Net Income before Taxes/Total Assets (%)	Income (before applicable income taxes and discontinued operations) for the most recent twelve months divided by total assets. ¹
Nonperforming Loans and Leases/Gross Assets (%)	Sum of total loans and lease financing receivables past due 90 or more days and still accruing interest and total nonaccrual loans and lease financing receivables (excluding, in both cases, the maximum amount recoverable from the U.S. Government, its agencies or government-sponsored enterprises, under guarantee or insurance provisions) divided by gross assets. ^{2,3}
Other Real Estate Owned/Gross Assets (%)	Other real estate owned divided by gross assets. ²
Brokered Deposit Ratio	The ratio of the difference between brokered deposits and 10 percent of total assets to total assets. For institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. If the ratio is less than zero, the value is set to zero.
Weighted Average of C, A, M, E, L, and S Component Ratings	The weighted sum of the “C,” “A,” “M,” “E,” “L,” and “S” CAMELS components, with weights of 25 percent each for the “C” and “M” components, 20 percent for the “A” component, and 10 percent each for the “E,” “L,” and “S” components. In instances where the “S” component is missing, the remaining components are scaled by a factor of 10/9. ⁴
Loan Mix Index	A measure of credit risk described below.

Asset Growth (%)	Growth in assets (adjusted for mergers ⁵) over the previous year in excess of 10 percent. ⁶ If growth is less than 10 percent, the value is set to zero.
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¹ For purposes of calculating actual assessment rates (as opposed to model estimation), the ratio of Net Income before Taxes to Total Assets is bounded below by (and cannot be less than) -25 percent and is bounded above by (and cannot exceed) 3 percent. For purposes of model estimation only, the ratio of Net Income before Taxes to Total Assets is defined as income (before income taxes and extraordinary items and other adjustments) for the most recent twelve months divided by total assets.

² For purposes of calculating actual assessment rates (as opposed to model estimation), “Gross assets” are total assets plus the allowance for loan and lease financing receivable losses (ALLL); for purposes of estimating the Statistical Model, for years before 2001, when allocated transfer risk was not included in ALLL in Call Reports, allocated transfer risk is included in gross assets separately.

³ Delinquency and non-accrual data on government guaranteed loans are not available for the entire estimation period. As a result, the Statistical Model is estimated without deducting delinquent or past-due government guaranteed loans from the nonperforming loans and leases to gross assets ratio.

⁴ The component rating for sensitivity to market risk (the “S” rating) is not available for years before 1997. As a result, and as described in the table, the Statistical Model is estimated using a weighted average of five component ratings excluding the “S” component where the component is not available.

⁵ Growth in assets is also adjusted for acquisitions of failed banks.

⁶ For purposes of calculating actual assessment rates (as opposed to model estimation), the maximum value of the Asset Growth measure is 230 percent; that is, asset growth (merger adjusted) over the previous year in excess of 240 percent (230 percentage points in excess of the 10 percent threshold) will not further increase a bank’s assessment rate.

The financial variable measures used to estimate the failure probabilities are obtained from Call Reports and TFRs. The weighted average of the “C,” “A,” “M,” “E,” “L,” and “S” component ratings measure is based on component ratings obtained from the most recent bank examination conducted within 24 months before the date of the Call Report or TFR.

The Loan Mix Index assigns loans to the categories of loans described in Table E.2. For each loan category, a charge-off rate is calculated for each year from 2001 through 2014. The charge-off rate for each year is the aggregate charge-off rate on all such loans held by small institutions in that year. A weighted average charge-off rate is then calculated for each loan category, where

the weight for each year is based on the number of small-bank failures during that year.³ A Loan Mix Index for each established small institution is calculated by: (1) multiplying the ratio of the institution's amount of loans in a particular loan category to its total assets by the associated weighted average charge-off rate for that loan category; and (2) summing the products for all loan categories. Table E.2 gives the weighted average charge-off rate for each category of loan, as calculated through the end of 2014. The Loan Mix Index excludes credit card loans.

Table E.2: Loan Mix Index Categories

	Weighted Charge-off Rate Percent
Construction & Development	4.4965840
Commercial & Industrial	1.5984506
Leases	1.4974551
Other Consumer	1.4559717
Loans to Foreign Government	1.3384093
Real Estate Loans Residual	1.0169338
Multifamily Residential	0.8847597
Nonfarm Nonresidential	0.7286274
1-4 Family Residential	0.6973778
Loans to Depository banks	0.5760532
Agricultural Real Estate	0.2376712
Agriculture	0.2432737

³ An exception is "Real Estate Loans Residual," which consists of real estate loans held in foreign offices. Few small insured depository institutions report this item and a statistically reliable estimate of the weighted average charge-off rate could not be obtained. Instead, a weighted average of the weighted average charge-off rates of the other real estate loan categories is used. (The other categories are construction & development, multifamily residential, nonfarm nonresidential, 1-4 family residential, and agricultural real estate.) The weight for each of the other real estate loan categories is based on the aggregate amount of the loans held by small insured depository institutions as of December 31, 2014.

For each of the three regression estimates (Regression 1, Regression 2 and Regression 3), the estimated probability of failure (over a three-year horizon) of institution i at time T is

Equation 1

$$P_{iT} = 1 / (1 + \exp(-Z_{iT}))$$

where

Equation 2

$$Z_{iT} = \beta_0 + \beta_1 (\text{Tier 1 leverage Ratio}_{iT}) + \beta_2 (\text{Nonperforming loans and leases ratio}_{iT}) + \beta_3 (\text{Other real estate owned ratio}_{iT}) + \beta_4 (\text{Net income before taxes ratio}_{iT}) + \beta_5 (\text{Brokered deposit ratio}_{iT}) + \beta_6 (\text{Weighted average CAMELS component rating}_{iT}) + \beta_7 (\text{Loan mix index}_{iT}) + \beta_8 (\text{Asset growth}_{iT})$$

where the β variables are parameter estimates. As stated earlier, for actual assessments, the β values that are applied are averages of each of the individual parameters over three separate regressions. Pricing multipliers (discussed in the next section) are based on Z_{iT} .⁴

III. Derivation of uniform amount and pricing multipliers

The uniform amount and pricing multipliers used to compute the annual initial base assessment rate in basis points, R_{iT} , for any such institution i at a given time T will be determined from the Statistical Model as follows:

Equation 3

$$R_{iT} = \alpha_0 + \alpha_1 * Z_{iT} \text{ subject to } Min \leq R_{iT} \leq Max^5$$

⁴ The Z_{iT} values have the same rank ordering as the probability measures P_{iT} .

where α_0 and α_1 are a constant term and a scale factor used to convert Z_{iT} to an assessment rate, ***Max* is the maximum initial base assessment rate in effect and *Min* is the minimum initial base assessment rate in effect.** (R_{iT} is expressed as an annual rate, but the actual rate applied in any quarter will be $R_{iT}/4$.)

Solving equation 3 for minimum and maximum initial base assessment rates simultaneously,

$$Min = \alpha_0 + \alpha_1 * Z_N \text{ and } Max = \alpha_0 + \alpha_1 * Z_X$$

where **Z_X is the value of Z_{iT} above which the maximum initial assessment rate (*Max*) applies and Z_N is the value of Z_{iT} below which the minimum initial assessment rate (*Min*) applies,**

results in values for the constant amount, α_0 , and the scale factor, α_1 :

Equation 4

$$\alpha_0 = Min - \frac{Z_N * (Max - Min)}{Z_X - Z_N}$$

and *Equation 5*

$$\alpha_1 = \frac{Max - Min}{Z_X - Z_N}$$

The values for Z_X and Z_N will be selected to ensure that, for an assessment period shortly before adoption of a final rule, aggregate assessments for all established small institutions would have been approximately the same under the final rule as they would have been under the assessment

⁵ R_{iT} is also subject to the minimum and maximum assessment rates applicable to established small institutions based upon their CAMELS composite ratings.

rate schedule that – under rules in effect before adoption of the final rule – will automatically go into effect when the reserve ratio reaches 1.15 percent. As an example, using aggregate assessments for all established small institutions for the third quarter of 2013 to determine Z_X and Z_N , and assuming that *Min* had equaled 3 basis points and *Max* had equaled 30 basis points, the value of Z_X would have been 0.87 and the value of Z_N -6.36. Hence based on equations 4 and 5,

$$\alpha_0 = 26.751 \text{ and}$$

$$\alpha_1 = 3.734.$$

Therefore from equation 3, it follows that

Equation 6

$$R_{iT} = 26.751 + 3.734 * Z_{iT} \text{ subject to } 3 \leq R_{iT} \leq 30$$

Substituting equation 2 produces an annual initial base assessment rate for institution i at time T , R_{iT} , in terms of the uniform amount, the pricing multipliers and model variables:

Equation 7

$$R_{iT} = [26.751 + 3.734 * \beta_0] + 3.734 * [\beta_1 (\text{Tier 1 leverage ratio}_{iT})] + 3.734 * \beta_2 (\text{Nonperforming loans and leases ratio}_{iT}) + 3.734 * \beta_3 (\text{Other real estate owned ratio}_{iT}) + 3.734 * \beta_4 (\text{Net income before taxes ratio}_{iT}) + 3.734 * \beta_5 (\text{Brokered deposit ratio}_{iT}) + 3.734 * \beta_6 (\text{Weighted average CAMELS component rating}_{iT}) + 3.734 * \beta_7 (\text{Loan mix index}_{iT}) + 3.734 * \beta_8 (\text{Asset growth}_{iT})$$

again subject to $3 \leq R_{iT} \leq 30^6$

where $26.751 + 3.734 * \beta_0$ equals the uniform amount, $3.734 * \beta_j$ is a pricing multiplier for the associated risk measure j , and T is the date of the report of condition corresponding to the end of the quarter for which the assessment rate is computed.

By order of the Board of Directors.

Dated at Washington, D.C., this 21st day of January, 2016.

Federal Deposit Insurance Corporation

Robert E. Feldman

Executive Secretary

⁶ As stated above, R_{iT} is also subject to the minimum and maximum assessment rates applicable to established small institutions based upon their CAMELS composite ratings.

